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NATIONAL INVESTORS GUIDE

by

P. A. WATSON

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National Investors Guide

by

P. A. Watson

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Preface

This book, National Investors Guide, is an educational issue offered in connection with our National Investors Service Bureau, and covers only what are termed and known as organizing securities. The contents place before the investor, information and advice, which, if carefully followed, in connection with the service of the National Investors Service Bureau, will be invaluable.

The National Investors Guide or National Investors Service Bureau is not intended to discourage legitimate financing or the development of meritorious industries. Its intent and purpose is to educate its subscribers and fortify them against unscrupulous promoters and questionable enterprises, which has cost the investing public, during and since the World War, an amount equal to if not more than our entire purchase of Liberty Bonds.

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INVESTORS GUIDE

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NATIONAL INVESTORS SERVICE BUREAU

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OFFICERS

P. A. Watson.....President

M. H. Kramer.....Vice-President

C. W. Kramer.....Sec'y-Treasurer

General Executive Offices, LANSING, MICH.

Branch Offices to be operated in all Capitol Cities of the United States

P. A. WATSON

Author of National Investors Guide which covers his fourteen successful years as general promotor and stock salesman.

Preliminary

I want it understood that in giving my experience as a promoter and stock salesman that I have not become saturated with remorse for my wrong doing, accepted religion, and started out to reform the promoter and stock salesman.

Nor do I want a subscriber to think that I have a grievance against those with whom I have been associated, and that I am taking this means to get sweet revenge.

Nor do I want anyone to think that I am like the criminal who turns on his associates, gives what is termed States Evidence, after being promised leniency, for such is not the case.

For the past five years the idea has been in my mind to start an Investor's Service Bureau, realizing all these years how helpless the average investor is when approached by a clever stock salesman, who is backed by a shrewd promoter. My experience has proved that the prospective investor is but clay in their hands in falling prey to the opportunities presented. Investors include men of all classes, not excepting the shrewdest business and professional men. Of course, you understand that we only approach men whom we know desire to increase their estate and who are in position to invest. Consequently you will understand that they have been at least moderately successful in their line of business.

My further reason for organizing an Investors Service Bureau is due to the fact that we know of no such service available in the world, where a prospective investor can apply for and obtain a report on an organizing proposition before investing his money. There are mercantile agencies who compile reports on business institutions which are used as a basis for credit among business houses only, but the National Investors Service Bureau is the only service that furnishes reports during the process of organization.

The principal reason for establishing the National Investors Service Bureau is because such a service is badly needed, and I believe that such a public service will save more money than any other service in the world.

My Fourteen Years As a Successful Promoter and Stock Salesman

In 1907 I was connected with a cereal concern having a contract for eight southern states with headquarters at Chattanooga, Tennessee. After I had been there a short time I met at my hotel, a stock salesman who was representing a local organizing concern. He would leave Chattanooga on Mondays and return on Fridays. We became very friendly, to the extent that he showed me his bank deposits which showed that his commissions amounted to from $900.00 to $1,-500.00 per week. Through his recommendation I obtained a position with his concern, and was allotted territory in Georgia.

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Up to this time I was not familiar with corporations or their methods of financing so the business was all new to me. I had a talk with the president and other officers of the company, and they seemed very enthusiastic and appeared to be capable, clean cut business men. Their plan appealed to me as a very good one. I then studied their prospectus, made myself familiar with details, got what we term "kit" together, which consists of data on similar concerns, prospective profits, testimonial letters, etc. Then I was ready to go, and went to Western Georgia.

We will call this company the G. S. A. Company, chartered under the laws of Arizona with an authorized capital of $3,000,000, all common stock, par value $10.00 per share—offices Chattanooga, Tennessee. This charter was obtained about three years previous and the business of the company was to represent as general agent in several states, a northern old line life insurance company. Their contract carried a first premium remuneration; also a renewal consideration. This brings us up to 1908, just after the Armstrong Investigation of our eastern life insurance companies. This investigation made public the enorm-

ous earnings of these companies. In the meantime the G. S. A. Company, as an agency company, for two successive years had paid to its stockholders 20 and 25% dividends, but this on a small issue of its capital stock. This, of course, made the past record of the company look good.

Their plan was now ready to promote and finance. It was understood that the G. S. A. Company would sell enough of their stock to finance the S. L. Insurance Company, of Memphis, with $500,000 capital and $500,000 surplus, the S. L. Insurance Company to remain the property of the G. S. A. Company. Thus the stockholders would profit from two sources—the business of the already established G. S. A. Company, and the profits to be derived from the S. L. Insurance Company.

Their plan was to scatter this security all over the south, and get the co-operation of business and professional men. We would first go to a local bank, induce some of the officers to subscribe, and in return would give the bank a contract which provided that all monies received for insurance premiums in that locality would be deposited in the local bank. This contract also provided that the bank would be privileged to loan the insurance company's money on real estate, farms, etc., for which they were to receive the usual brokerage.

The contract also provided that the bank should furnish a list of influential men who were able to invest, assist in getting them to invest in the company, and if necessary handle their notes. During the sale of the stock, I succeeded in interesting every bank I called on to co-operate with me on this contract, excepting one in Mississippi.

Our plea to the bankers and investors was that the south had only one life insurance company, and that southern policyholders were pouring their money into New York and Wall Street, which controlled the finance of this country. It could be shown that these eastern companies had been very profitable to their stockholders.

The G. S. A. Company plans were to keep insurance profits and assets at home, and make them available for home development. As you can see, the theory was a good one, and would have accomplished a great good had the promoters or officers had any intentions of carrying out these plans.

I was with the G. S. A. Company about nine months and only worked about four months. During this time I sold about $200,000 of G. S. A. Company stock and received 30% commission. I did not know that 30% was an excessive commission and had every reason to believe that the company and the officers were acting in good faith. It gave me much pride to refer to my photo in the company's monthly magazine as ranking first or second in amount of stock sold during the month.

I believe that it was in February, 1909, while in Memphis, I picked up a morning paper which had printed in big head lines on the front page that the G. S. A. Company had gone into the hands of a receiver. I began to try to confirm this report, and found that all of the stock salesmen had been put wise and had left for parts unknown. I then called on the Vice-President, who was located in Memphis, and while he seemed to be in ignorance of the true situation, advised me to leave town until matters were adjusted.

I had just sold $2,000 worth the day before, and it was hard for me to believe the report. I then went to the "to be" President of the S. L. Insurance Company. He was much disturbed and felt as I did, but advised me to leave the state. I went to Reel Foot Lake, Tennessee, duck shooting, and from there to Chicago. As I remember it, the reports were that out of $3,000,000 authorized capital the promoters had sold their general agency contract to the G. S. A. Company for $1,500,000 of the stock. They then made a contract with themselves to sell the remaining treasury stock and were to receive 60% of the gross amount of sales. While they sold the treasury stock they also sold their private stock. You will have some

idea of the loss of 8,000 stockholders when I tell you that the security was sold at $20, $25 and $30 per share, and the par value was $10.00.

This proposition was what is known as a stock jobbing proposition, and the officers never had any intentions of carrying out the original plans. They could not be prosecuted because they had guarded their actions by keeping within the law and had kept a complete record for proof. All the receiver could find in assets belonging to the stockholders was $40,000 in cash. The S. L. Insurance Company never received a charter, never was licensed, and in consequence never sold or issued a policy.

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I learned of another agency company being financed in Florida, and was told that the stock was selling well and the proposition was clean.

I went to Florida, and as far as I could learn everything was O. K. D. P., who had been conducting a general agency as an individual decided to incorporate for $200,000. He had given himself $60,000 of the stock for his agency contract. This company was known as A. C. G. A. Co. His pretense to the public to invest their money was the fact that he had been successful, and more capital would enable him to take on more insurance companies, which included several fire, life, casualty and one live stock insurance company.

This security sold readily, and was soon sold out. A year later the capital was increased, and they had paid a 15% script dividend. I returned to sell it and sold considerable. We salesmen, on the two issues, received 25%, the promoter 40%. Two months later a receiver had been appointed and no assets could be found. Most of the agency contracts had been cancelled. What assets that did remain after promotion and salaries had been paid were lost in bad loans. The president skipped to California and was in hiding from prosecution, although he was never bothered. It was rumored that he had made a hazardous loan of

a considerable sum to a movie theatre on account of his madness for vaudeville actresses, and his desire for free passes and access to all parts of the theatre. The failure of the company can be attributed to excess promotion expense and inefficient management.

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In the previous year prior to the increase in capital of the A. C. G. A. Company I learned that a machine had been invented and was being promoted at Louisville, Kentucky, for vending accident insurance policies.

I went to Louisville, saw the machine in operation and found the company backed and officered by leading business men and a banker of Louisville. They were endorsing the proposition in writing over their signatures.

If I remember correctly, this company was known as the T. Insurance M. Company, incorporated under the laws of Arizona for $1,000,000 common stock, par value of $5. I sold $75,000 of this security and received 25% commission; most of this I sold in two towns in Kentucky.

A contract had been made with a well known casualty company to issue their policies through this machine. The machine was to have been placed in public places, such as hotels, railway waiting rooms, etc. to accommodate the traveling public.

The machine was very attractive in appearance and resembled high grade 5c weighing machines.

The profits of this company were to accrue from these machines, acting as agent for the casualty company. The T. Insurance M. Company was to look after the machines daily and remit the returns to the insurance company at stated intervals.

The machine issued for 5c a $1,000 accident policy good for twenty-four hours, such as are issued by all standard companies. By dropping a nickel in the slot the machine would deliver the policy with coupon attached. The receiver would detach the coupon, write name and address plainly, then return the coupon to the machine. It remained there until taken out by the

attendant. The machine was provided with a scale and a clock and when the policy was delivered it bore the correct date and hour on both the policy and the stub.

To sell the stock in the company we would go to a town, find some one responsible and financially able to invest in the company; and give him a contract on a percentage basis to care and look after a certain number of machines, with the understanding that he would assist in the sale of the stock.

This man was easily found, as every city and hamlet was familiar with weighing and coin gambling machines, and the returns they had made their operators.

The climax came when I made a trip to Louisville to attend an aero meet. While in Louisville I met a friend stock salesman who was complaining that one of the officers had cheated him out of several good sales by selling to his prospects the officer's private stock at $2.50 per share. The purchaser believed that he was getting treasury stock, while at the same time we were obliged to get par $5 per share for treasury stock.

I had about $50,000 worth of business lined up and my prospects wanted to see a machine. I took up the matter with the company, and they informed me that they had only one machine; and that they would have to send a mechanic to unpack and repack it, because they wished to take extremely good care of it. They also explained that they had at that time ten machines under construction that would soon be completed; then each stock salesman could have one.

At the appointed day and time the mechanic and machine arrived. I had my prospects all ready and very much enthused. Instead of placing the machine on exhibition in the hotel lobby, which to me seemed the proper place in a town of 40,000, it was taken to my room. This was explained by telling me that they did not want every Tom, Dick and Harry operating the machine and wasting policies.

My parties came in and viewed the machine, the outer case was removed, and coins handed the pros-

pects to operate it. I noticed that when the prospects were operating it, the mechanic would leisurely lay his hand on the machine and at a certain point the tip of his little finger would touch a dog. No one in the room but myself noticed it. All my prospects were more than satisfied; and told me they were ready to close up as soon as it was convenient for me to call.

After they had gone I asked the mechanic why he had to touch the trip each operation. He explained by showing me that if he didn't the machine would run off all the policies in it before stopping. He further stated that they were trying to overcome this imperfection, and seemed surprised that I was not aware of it.

I did not go near my prospects, and they soon began to telephone me, as one man wanted $30,000 and another $10,000. I telephoned them that I had been hurriedly called to Chicago on account of sickness, and left town.

I learned later that all the officers were given their stock free and were selling it in conjunction with the company's treasury stock. The promoters were getting 50% of the gross sale of treasury stock, so this was simply a stock selling scheme, using an imperfect device for the purpose. Stock holders lost all.

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While in Chicago I learned of another insurance scale that was being financed on the same plan, and was assured that the machine was mechanically perfect and foolproof. This company was known as the Nat. I. M. Co. They had enough machines so that they could give stock salesmen a machine to carry and use as a demonstrator.

My first stop was an Illinois town where I made a "killing," as the expression is used where a stock salesman makes big money. I jumped from this town to a good town in Arkansas. This town was entitled to a small allotment of $25,000—5,000 shares. The third day the allotment was sold to a prominent lawyer who was president of the local bank.

Before I had his remittance in the mail, I received a telegram from the promoter to accept no subscriptions, as the stock sale was closed. I returned to the lawyer, handed him his $25,000 and informed him that he was too late as the issue had been closed out. I don't suppose he will ever know what a narrow escape he had.

I found while in this town that the machine was not perfect. The policies were of card board and when coin was placed in slot the machine would stamp same, then two delicate kickers would deliver the policy. It was impossible to secure card board made to an even exact thickness and consequently the machine would become clogged and no policies would be delivered.

I learned afterwards that this company went the usual route. The machine was not perfect, and was used only for the purpose of selling stock. Stock holders lost all—promoters made money.

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My next proposition was a life insurance company with offices at Atlanta, Georgia, incorporated for $500,000 capital, and known as C. L. Company. The shares were all common par value $100. Like all insurance companies the stock is always sold above par, supposedly to create a surplus as required by law. It would surprise you to know that very few purchasers ask the par value of stock, and I do believe that a great many were under the impression that dividends were declared on the full amount paid for the stock.

The promoter of this company, the C. L. Insurance Company, was just an ordinary insurance agent who succeeded in interesting some of the leading business and professional men of Atlanta to become officers of the company and accept free stock. The promoter obtained a splendid fiscal contract to sell the stock, and the general agency of the company after it was licensed to do business. I sold some of this security in Georgia, and attempted to operate in South

Carolina. I had the stage all set for a killing—had one bank pledged to take $50,000 when the Insurance Commissioner came out with a public statement that our cost of organizing was above 20% and served notice on prospective stock holders that the company would never be licensed while he was the commissioner of South Carolina.

I withdrew. Afterwards this company sneaked into another section of the state and sold over $200,000. This company was finally licensed and operated one year only, and sold out to another company. The stock holders received about 25c on the dollar, while the promoter insurance agent made about $100,000 in financing the company.

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My next venture was the A. S. Life Insurance Company of Augusta, Georgia, organized along the same lines as the Atlanta, Georgia, company. My first week's sales amounted to $25,000 in a South Carolina town. The notes were all good, and I had previously arranged to discount them at a local bank, but the Insurance Commissioner of South Carolina again butted in and I could not discount the paper. The company then sent me into Georgia, but I did not meet with any success.

I learned shortly afterwards that this company did not sell enough stock to qualify. The stock holders were persuaded to let their money stand and organize a trust company. The promoter absconded and the president was prosecuted. I believe he drew a short term of confinement. Stock holders lost all.

* * * * *

My next was an Atlanta Company. This company had just commenced operating and building a vending machine for dispensing bottled soft drinks, such as Coca Cola and sodas. The machine was built furnace drum shape. Inside there were four sections of revolving wheels laid down. The bottled soft drinks were placed between the spokes. Purchaser would drop a nickel in the Coca Cola section, turn a

crank and an ice cold bottle would slide out. A container was made underneath in which to return empty bottles. The sections were filled with bottles, the center filled with ice.

I sold considerable of this stock in several towns by giving the town right in the sale of vending machines. The last town I was in I had sold considerable stock and three machines were installed.

One machine, placed on the side walk, took in $60.00 on Sunday. The next Sunday it took in $70.00 of which $50.00 was found to be metal slugs. It developed that as fast as machines were placed customers would find a way to beat them.

Consequently the machine was not a success, and the stock holders lost their money, while the promoter and principal owner made money selling the treasury stock and his own private stock.

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My next was a salts company with general offices in Seattle, Washington. incorporated under the laws of Arizona. Parties in Seattle had acquired a lease on a lake in the State of Washington which produced a salts supposed to be equal to the famous imported Sprudel Salts of Carlsbad, Germany. A fiscal contract was given to parties in Milwaukee, Wisconsin. I worked Milwaukee and succeded in interesting some of the most influential business men there. My work incurred the jealousy of the fiscal agents, we disagreed and I resigned. I learned afterwards that the salts would deteriorate on a druggist's shelf.

The fiscal agents, promoter and officers made good money selling treasury and private stock. The stock holders lost their money.

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My next was a casualty company known as the N. A. Company of Atlanta, Georgia. I did not remain on this long.

The company had been trying for over a year to sell their stock. I was one of a party of sixty stock

salesmen that went to Atlanta in a special car from Chicago. My allotted territory was southern Florida with Tampa as headquarters.

I succeeded in interesting several Tampa business men and found a prospective purchaser for a block of $20,000 who desired to be on the Board of Directors. I wired for the president to come and confirm the appointment so I could get settlement. He did not come at the appointed time.

Two days later on my return to the hotel about 9:00 in the evening, the proprietor informed me that one of my friends from Atlanta had arrived in a very dilapidated condition. They relieved him of his jewelry, money and wet goods and had put another bed in my room for him.

For several days I tried to get him in condition to call on our new director to be, and finally he slipped away from me and I found him calling on our prospective director, talking like a lunatic. After the interview, the prospect politely and in a gentlemanly way informed me that he did not care to be associated with such a charcater.

I immediately tendered my resignation. I learned afterwards that they spent all the money they had received in the sale of stock in an effort to sell more. The company was never licensed, and stock holders lost all.

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My next was a $500,000 fire and casulty company of Jacksonville, Florida.

Two ordinary country insurance agents from Georgia obtained $50.00 each as an advance from a promoter in Augusta, went to Jacksonville, succeeded in interesting several prominent business men, who all received free stock.

The F. F. and C. Company was launched with these two men as officers, and also agency directors, one to have the fire department, the other the casualty department.

This company was financed in short order. Excepting the president, all the officers and the promoter made money. This company was financed and organized in ship shape. The agency directors had had no experience and the business was new to the local men; therefore, the company lasted only two years when it failed, and the affairs of the company were not yet settled in 1920.

The president of a local bank, who was also an important city official, resigned to become president of this company. He is now safety deposit clerk in a local bank. The failure of this company was due to excessive cost of promotion, and inefficient management. Stock holders will receive about 10c on the dollar.

* * * * *

My next was an oil company of Kansas City, Mo. 51% of the stock of this company was controlled by a Kansas City man. This company was known as A. T. R. Oil Company.

Their plan was to organize local companies at various distributing points and sell them on a royalty basis, the privilege of using the company's patented process for refining oil. The local company was required to have a paid in capital of $25,000, the parent company agreeing to install their process for $15,000. They were to receive a royalty of ½c per gallon on oil and gasoline.

I saw one of these plants in operation in Kansas City, and they were supposed to have another in Colorado and two in Louisiana. Their theory was to prorate crude oil and kerosene, 2 to 1 and coagulate same. With this process they could produce high test naptha better than any grade of gasoline on the market. The grease taken away by the process would make good cylinder and bearing oil.

It was also contended that in case the producers would not sell them crude oil and kerosene, it could be bought locally at retail prices and still have a splendid profit. At that time crude oil was selling at 3c per

gallon and kerosene at 8c per gallon; gasoline was selling at 21c per gallon.

I took southern territory, and made my first attempt in Atlanta. I secured the endorsement and assistance of the local Chamber of Commerce, and had just about subscribed $25,000 when the Chamber of Commerce gave the good news to the newspapers. The next morning the Standard Oil Company reduced gasoline to hitherto unheard of low prices. This frightened the subscribers and it fell through.

I made another attempt at Birmingham, Alabama, and Albany, Georgia, with the same results, consequently no one was stung by me. I have stated this case merely to show one of the many things that look good theoretically, but practically they are a failure.

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My next was a life insurance company of Gainesville, Florida. This company was organized and officered by four brothers and two relatives.

The usual organization methods and practice were used in promoting this company. While there was considerable of the stock sold, it could not be financed sufficiently to secure a license to write insurance.

The stock holders were afterwards transferred to the F. F. & C. Company of Jacksonville, Florida, on an equal share basis and finally lost out.

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My next was an issue in another life insurance company known as the L. A. Life Insurance Company of Jacksonville, Fla. The company was promoted in the usual manner by a local insurance agent who had no experience in operating an insurance company.

He secured substantial local business men on his board of directors. As I remember it the authorized capital of the company was $250,000 and sold two for one. This company differed from other companies in the state only in that it was known as a negro life insurance company, and catered to colored

policy holders exclusively on the metropolitan plan or the weekly payment plan.

This company made rapid strides the first year, but soon followed the route of the other companies and failed on account of inefficient management. Stock holders received nothing.

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My next was a resort and medicinal springs hotel company in southern Florida. This was a Florida corporation and was organized by two brothers. It was incorporated under the laws of Florida for $100,000 and was known as the Z. Springs Company.

The promoters had taken control by inflating values of the real estate turned over to the company, which allowed them 51% of the stock. Florida then had a blue sky department which gave the company a license to sell its security, and gave me a 25% commission contract, the company to furnish all advertising.

I sold considerable stock in nearby towns, and then I made a trip through Alabama, Tennessee and Illinois on their leads. I returned to Florida and insisted on selling the stock in their home town, which they discouraged. I then went to Ohio on their leads.

This brings me up to August, 1914, when war was declared in Europe. Conditions were bad; there were prospects of a panic and everyone was blue, so I gave up my contract.

If the hotel was ever completed and a dividend ever paid, I do not know about it, but I do know the company had too much promotion stock and the cost of financing was too high.

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My next was the N. M. Co., Grand Rapids, Michigan. The object of this concern was to place music vending pianos in public places.

The fiscal agents for this company were then located in Chicago. The company had been paying

1% per month, and an extra dividend at the end of each year.

These agents induced me to go to West Virginia to call on the company's stock holders who had been in since the company started. I was given to understand that they would take more stock. However, on my arrival in West Virginia these stock holders informed me that they did not care to invest. I insisted on an explanation as to why they would not buy additional stock when they were receiving 17½% on this security.

They explained that they were well acquainted with the president who had formerly been very active in the **Arnold Scheme** which originated in St. Louis, Mo. This plan was similar to that of Ponzi's of Boston, Mass., with the exception that Ponzi was supposed to have been dealing in foreign exchange while the Arnold Scheme was to pool investor's money on horse races at the various tracks in the United States.

These stock holders had invested in the Arnold Scheme when it first originated and received enormous dividends, although they lost their original investment when the plan collapsed.

They said that they had invested in the N. M. Company of Grand Rapids because some of the same people who were connected with the Arnold Scheme were behind it. They went in on the ground floor, but expected it to collapse sooner or later. With this information I did not offer any more of the securities.

In my judgment this was, and has always been, a promotion scheme. The company has sold stock continuously for years, and I believe that the 1% per month paid to the stock holders has been taken mostly from the surplus over par received from the sale of treasury stock.

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My next was a casket company of Chatham, Ontario, Canada. This was an American concern who had received American and Canadian patents on a heremetically sealed, pure copper vault. It was con-

tended that copper was the only material that would not perish underground, and that it was air and water tight. We will grant that their claims were correct.

On my arrival in Chatham, I found that the American concern had obtained a Canadian charter, and had given all the Canadian officers their stock free, thus turning the company over to them with the right to build the vault on a royalty basis.

I found that most every one in that vicinity were wise to the organization, and in consequence would not invest. I then made a further investigation through one of the Canadian officers of the company and found that the American Company had misrepresented the cost of manufacturing the vault. The American concern claimed that the vault could be constructed at a price that would enable the Canadian concern to manufacture and compete with the average burial plan at a splendid profit.

Our investigation proved that this could not be done, and it could only be sold to the well-to-do. The company fell through. This was in 1915 and so far I have never heard of these patented vaults being sold. The only loser in this proposition was the American concern who had paid for the Canadian charter.

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My next was in Virginia. One of my friends who was a stock salesman was then at Roanoke, selling stock in the S. L. Insurance Company of Roanoke. He wrote me asking me to come to that city.

On my arrival I found the affairs of the S. L. Insurance Company not going smoothly, so I declined to sell it.

At that time the V. Match Company of Roanoke, Virginia, was seeking capital. They had secured enough money to build a well appointed concrete building, and had installed one machine. However, they had no working capital.

As is the usual case, the company was over capitalized. The patentee and the promoters held 51% of the stock for patent rights, etc.

They claimed that this machine would revolutionize the match making industry. The advantages claimed were that instead of being compelled to use white pine which was becoming scarce and high in price, the Roanoke machine would and did use bass wood, gum and other soft wood which was plentiful and cheap.

The Roanoke machine instead of cutting the wood in block shape would cut it the length of a match in ribbon shape around the log. These ribbons or reels resembled a moving picture reel. These reels were then saturated in a chemical to prevent an after glow.

They were then fed into the machine on an endless chain carrier, and came out a complete match into the package, ready for use. If I remember correctly it took the match two hours to complete its circuit through the machine.

Theoretically this looks good, but the wood had to be carefully selected, and be free from knots. The heart of the log could not be used as it would not ribbon. It would crack and break; therefore the waste in timber more than offset the cost of the white pine.

Further, the machine would not stand the strain and was shut down half the time for repairs. The last I heard of this company was a letter I received in Pennsylvania from the president, requesting me to unload some of his private stock in that state; I declined. Another failure at the expense of the stockholders.

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My next was the C. I. Company of Roanoke. The ice and cold storage business at that time was controlled by one concern. They were very independent and would not drive their wagons on some streets. They charged 60c to 75c per hundred for ice, and of course were very much in disfavor.

It was the same man who promoted the V. Match Company that conceived the C. I. Company of Roanoke, and at a most opportune time. A charter was granted with two classes of preferred stock, "A" and

"B," and two classes of common stock, $90,000 "A" and $150,000 "B," class "B" only voting.

The promoter assigned and issued the $150,000 "B" to himself as free stock and a fiscal contract of 25% for himself to sell the treasury stock. The preferred was sold at par to draw 7%, payable semi-annually and accumulative. With each share of preferred, ½ share of the $90,000 class "A" common was given free.

This stock sold readily, and in three months the company was manufacturing and retailing ice at 35c per hundred pounds.

I told the president we could complete the stock sale in a hurry if he would pay the semi-annual preferred dividend on time, and was amused when he said he thought he could pad the financial statement so that it would be O. K'd. by the board of directors. This he did, the dividend was paid and the security sold like hot cakes.

While we were financing this company, the older or competitive company bought our stock indirectly and offered it to the investors for less than par. This was to discourage the sale. They also obtained a copy of our organization papers from the state commissioner, published them locally and called the public's attention to the amount of promotion allowed the promoters. This did not effect the sale of the stock.

I never heard of the company paying any more than the first forced preferred dividend on the stock which was then outstanding. Public sentiment and the old co-operation gag sold this stock. I left before the cold storage warehouse had been completed.

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My next was the P. Life and A. Company of Pittsburgh, Pennsylvania. This company was the outgrowth of a fraternal order. The appeal was made principally to the fraternal members to invest.

The stock was sold in the A. G. Co. as a holding company to finance the P. L. A. Co. The capital of

this company was all sold in about four months. As I remember it $1,000,000. Up to this time the A. G. Co. had paid script dividends. Two years later they put on another issue, and displayed two more script or paper dividends.

I was asked to join their forces, but declined, and learned later that their last issue did not sell. This was another stock jobbing proposition in which the promoter of the A. G. Co. was the only one to profit Stock holders paid for the music.

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My next was the N. A. Life Insurance Company of Chicago, the officers of which company were all clean cut and experienced insurance men. They had gained their experience with one of our largest eastern companies, and were known as this company's largest producers.

When I offered the N. A. L. I. Company's stock they then had a paid in capital of approximately $700,000, and were selling $300,000 more. The company did not pay any dividends the first five years. However, the last three years this company was a going, growing concern and did pay 10%, 12½% and 15% on a par value of $50.00. Despite this fact, it was the hardest security I ever have sold. I carried a splendid financial statement from the company which was the first and only one I ever had in selling stock.

While the par value of the stock was $50.00, it had a book value of $207.00, and was sold at the book value price. You probably wonder why this was not so readily sold, the reason is plain. The company had been operating eight years, and the cards had to be placed on the table. The past record did not show enormous dividends that are usually expected by the average stock buyer. The stock salesman could not elaborate nor magnify the future as can be done with an organizing company. The company was judged by its past record, rather than by its future. It was impossible to explain that it had cost the N. A. L. I. Company $1,000,000 in eight years time to

build up a selling organization to the point where it could be depended upon.

To show you the difference, I went to another company that had just obtained its charter and no stock had been sold. They didn't even have office fixtures. The par value of this stock was $100.00 and it sold like hot cakes at $200.00 per share. It had sufficient romance to enable the salesman to elaborately paint a picture of the future profits to accrue, and the local benefits to be derived therefrom.

* * * * *

My next was a company known as the A. B. & C. Co., with an authorized capital of $500,000 and a surplus of $500,000 to be created, par value $100 per share. The first issue sold at $150, the second at $200 and the third at $250 per share.

The president and promoter of the company had been formerly connected with an insurance agency in Oklahoma. The remainder of the officers were local business and professional men of Northwestern Iowa.

In about three months, I sold approximately $150,000 of this stock. I met the vice-president by chance in Jacksonville, Florida, in January, 1920 and he informed me that they had never paid a dividend. I learned from the Insurance Department of Missouri in 1921 that they had failed in February of this year.

This failure can be attributed to lack of experience and inefficient management.

* * * * *

My next was a company in Detroit, Michigan, known as the G. C. and S. Co. They had been trying for about two years to finance themselves, and had only about $11,000 in the treasury in November, 1916. Their authorized capital was $250,000 with a surplus of $250,000 to be created during the stock sale. This issue was sold out by May, 1917.

The capital was then increased to $500,000 and a surplus of $500,000. The license to sell it was ob-

tained September, 1917, and the financing was completed in the summer of 1918. I sold about $125,000 of this company's stock.

In July, 1921, I was informed by one of the stock holders that no dividends had been paid. The president of this company is a well known man with a national reputation, and in my judgment is a capable manager. The other officers are prominent Detroit and Michigan business men. But this company must be allowed the time necessary to build up a selling organization before the stock holders can expect to receive any dividends from their investment. At this writing August, 1921, I am not familiar with the present rating of the company. I do know that some stock holders invested in this company in 1915 or 1916, and have never received any dividends. $55.00 per share is now being offered for this stock.

My next was an electric storage battery company of Greenville, Michigan, known as the A. E. S. B. Company. This company was originated by a foreigner who supposedly had developed a superior formula for making electric storage battery plates. He was made president and given a small block of stock for his formula. The Chamber of Commerce gave the company a bonus, and an additional $40,000 was raised to finance the company. The company finally became financially embarrassed on account of poor management and the fact that the "formula" would not stand the test.

Application was made and permission received to sell $40,000 more stock. The fiscal contract was offered to a Grand Rapids man and myself, which we accepted only after we had exacted a promise from a well known business man to become general manager; also a promise that the then president would be removed. These plans were carried out at the next meeting of the stock holders.

A new chemist was secured who produced a splendid battery plate, but the new management was handicapped in many ways. While most all the increased

capital was sold, the old management had caused the credit of the company to become impaired, and the president had created what we call "Bolshevism" among the factory employees. On account of certain local interests who desired to get control of the company, and other local prejudice, the increased capital was hard to sell.

My last report on this company was to the effect that they were making a good product, for which there was an excellent demand. They were, however, still seriously handicapped for lack of sufficient capital. This was in 1920, and I have not heard anything since then.

Some stockholders have had their money in this company since 1916 and 1917, but I have never heard of any dividends ever being paid.

* * * * *

My next was a cement company of Petoskey, Michigan, known as P. P. C. Company. Their authorized capitalization was $1,500,000, all common stock, par value $10.00 per share.

This company first acquired a certain tract of phosphate lands situated directly on Little Traverse Bay. They also acquired a company who owned a shale bed about thirty miles south of Petoskey, and a small tract of phosphate lands adjoining the company's property on Little Traverse Bay.

These two companies formed the nucleus for the P. P. C. Company and in my judgment the stock obtained by the officers for this property was far in excess of its real value. The remaining treasury stock was then offered to the public in 1916.

Very little progress was made until I joined the company in the fall of 1918, in the lower peninsula of Michigan. While there had been some stock sold at par, at this time the stock was selling at $11.00 per share, and a small dividend paid to stockholders of record in January, 1918.

I gave up the sale of this stock December 1, 1918, to finance a company in Greenville, but returned to the P. P. C. Company in December, 1919, and took a fiscal contract for the upper peninsula of Michigan. The stock at this time was selling at $12.00 per share.

The stock was advanced at stated intervals during the year $1.00 per share until December, 1919, the stock was selling for $20.00 per share. I fought these advances because I felt they were arbitrary and fictitious, and in my judgment there was no legitimate basis for such increases.

Work was started on a loading dock November, 1919. The construction of the cement plant was not commenced until practically all the stock was sold. I understand that the company did not complete the cement plant or manufacture any cement until 1921.

I do know this, that some of the stockholders have had their money in this company since 1917, and others paid $20.00 per share in 1919. Under successful management this company will have to pay unusual dividends to equal the legal rate of interest on $20.00 shares for the time it has been invested.

While in Detroit in July, 1921, I was advised that this stock was being quoted at $13.00 and $14.00 per share. The greater portion of the capital was raised after it had been increased $14.00 to $20.00 per share. This shows that the public who bought this stock in 1917 and 1918 at par, $10.00, would now have a profit of about 10% on their investment if they were to sell. Those who bought at $20.00 per share would realize a loss equal to 30%, and those who bought at $13.00 and $14.00 per share, no profit or loss, outside of the use of their money for a period of over two years. If this money were in a savings bank the investor would receive interest at the rate of 3½ or 4%.

I have just learned this company paid a 3% dividend July 1, 1921. This, you understand, was paid on par, $10.00 per share. Those who invested at

$20.00 per share in 1919 have received $3.00 per share for the use of their money two years, which is equal to 1½%.

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In December, 1919, I went home to Florida with the determination of resting until May, 1920, but, like a good many well-meant resolutions, was made to be broken. In January, 1920, I noticed in the Jacksonville newspapers a new motor power, advertised as a crankless engine, which would revolutionize the motive power of the world. They were soliciting subscriptions for capital stock.

My curiosity got the best of me, and I sauntered around to see the engine on display. While I was inspecting it I was introduced to supposedly leading mechanical engineers from different parts of the country, who pronounced the model correct in theory, principle and practical, they were all very enthusiastic.

Noticing the crude way in which they were attempting to sell stock, and believing that there was an opportunity to make some money financing the company, I approached the president relative to taking the fiscal contract. I had heard and known of him for ten years, as a prominent business man and sole owner of two large enterprises in and near Jacksonville. I took it for granted that he was a good clean man and therefore did not inquire into his business methods.

I accepted the fiscal contract and telegraphed one of my associates in Grand Rapids, Michigan, to come and look it over and join my organization, which he did.

The company was operating under a declaration of trust which was new to me. I had not come in contact with this method of organizing before, excepting that I had heard of some larger companies operating along these lines. My partner and I closed a contract to sell one million of the treasury stock on a commission basis of 25%. We were to furnish all publicity, printed matter and defray all expenses in

selling the certificates. We were to deliver to the company 75c on every dollar received in cash and note settlements.

For convenience, we, as fiscal agents, rented and furnished a suitable office, giving the company free rent. My associate had to return to Michigan to clean up some other business, so I commenced placing my salesmen and putting the house in order.

The certificate sale did not progress as fast as I had anticipated, and my salesmen began to complain. This caused me to nose around among the banks and business men, and I found the reputation of the president for fair dealing very questionable.

This aroused me to insist on seeing the declaration of trust. I read it over carefully and became thoroughly convinced that the company could not be financed under its terms, and the reputation of the president. I called the president into conference, explained to him the impossibility of financing the company in such a manner, and that we would cancel our fiscal contract unless he would agree to reorganize and incorporate under the laws of Florida. Also, he was to withdraw as president, but was to be allowed to remain on the board of directors. He consented verbally to these conditions in the presence of witnesses.

The following were my findings in the declaration of trust: The authorized capitalization was $2,500,000. The par value of the certificates of shares was $10, non-voting. All elective power was invested in the board of six trustees, which consisted of the president, his son, daughter, son-in-law, patentee and a former protege. This protege had paid $500 for $2,500 worth of certificates, the patentee received $200,000 in certificates of shares as his share, and the other trustees had 100 shares each, with the exception of the president, who held $650,000, or a total of $855,500 held by the trustees, of which $850,000 was given for what was supposed to be basic patents on the engine.

The president had also sold to the company for $32,000 sixteen lots in an addition to Jacksonville which he was promoting, and received an additional $32,000 in certificates. When I went over this property, which was on the banks of a river, the water was up to the running board of my automobile. This property was located five miles from transportation, and was the proposed site for the factory.

We jogged along selling certificates under his promise to reorganize, until I fell ill, and then we had to force the issue. My partner had then returned from Michigan, so under threats of exposure we finally succeeded in getting his signature to an agreement to reorganize under the laws of Florida.

The books were then audited. When the transfer was being made we found that the former president had filed with the Blue Sky Department at Tallahassee a substitute to our fiscal contract which called for 35%. As a result, he had been pulling down for his own personal profit 10% on every sale we had made. This was eliminated, and all stock held by officers and former trustees was put in escrow (not to be delivered or sold until the company was completely financed.)

We succeeded in getting a man from Orlando, Florida, to accept the presidency; the rest of the officers were Jacksonville men. Each official was given $5,000 worth of free stock. The new officers immediately commenced using the company for a grab bag.

A factory was leased in the city of Jacksonville, and the actual manufacture of engines started. The new president went to Washington, made a research of the patent office and found that the basic patent had been issued in 1909 to an inventor in New York State. After the reorganization our stock sold rapidly, but we did not dare close our eyes at night for fear something would be put over or some extravagant expenditure contracted.

On July 7, 1920, we cancelled our contract, accepted our loss of about $20,000, but we had made the company safe and assured a square deal to the

stockholders. I wish to add here that the trustees, under this declaration of trust, were given unlimited authority, without censor, to use the company monies as they saw fit.

In June, 1921, I received a letter from the president, whom we had appointed, stating that he had resigned in January, 1921, and up to that time they were still trying to sell stock.

* * * * *

My next was a chain store proposition out of St. Louis, Mo., known as the I. T. Company. This company was operating under a Washington, D. C., charter, which is granted by a special act of Congress. Their authorized capital was $20,000,000.

When I left the Florida proposition I left ten of my salesmen with the company. Of course, I was anxious to get something that was clean and all right, so I could give them employment.

I made a trip to St. Louis, conducted a hurried investigation through such channels as were available to me, and found that this company had about 100 chain stores in operation in Texas, Louisiana, and Arkansas. In the previous six months they had sold over $1,000,000 of their stock in Arkansas, and had opened about fifty stores in that State.

I closed a contract for fourteen counties in eastern Arkansas, where they were licensed to sell stock, all of the State of Tennessee, and the northern half of Mississippi. My contract was to have been confirmed by letter the next day and mailed to Florida.

I returned to Florida, got my organization together and arranged to move into Memphis. I wired asking why my contract had not been confirmed, and received an answer to the effect that the confirmation had been sent to Memphis. I arrived in Memphis about September 1, 1920, with my crew of salesmen, expecting to place them in Tennessee towns, but found that a license had not been granted them, so was obliged to place the men in Arkansas.

I asked for monthly reports on some of the chain stores and received them. In analyzing these reports I found that they were padded, and that each store was operating at considerable loss. I also learned that they had been denied a license to sell their security in Tennessee and Missouri, and were evading the Blue Sky Law of Missouri by getting an Arkansas licensed broker to open offices in St. Louis, and take out a license in Missouri so that the company could operate under the broker's name.

I also found the management of the company dilatory, negligent, and in every way incompetent. I cancelled by contract on October 1, 1920, accepted my loss and went on about my business.

This company was forced to file a petition in bankruptcy in June, 1921, and a receiver was appointed. When the hearing was held, only the Secretary-Treasurer appeared. In his evidence he stated that he did not know the whereabouts of the president and vice-president. He further stated that prior to promoting this company the president had been a telegraph operator, and the vice-president an insurance agent, and had had no experience in merchandising. His evidence showed that the president, vice-president and treasurer were each receiving $1,000 per month salary. They also held free stock amounting to $410,000, and had sold $2,600,000 treasury stock.

He freely admitted that the principal business of the company was to sell its stock. The receiver stated that there were not enough assets to warrant an audit which would cost about $6000. You can imagine how much stockholders will receive in final settlement of the company's affairs. Incompetency and capitalized co-operation are responsible for the stockholders' loss.

When I cancelled my I. T. Company contract, I made up my mind that I would not spend any more of my money or allow my salesmen to spend their's in an effort to finance any company unless thoroughly investigated.

I then took on the D. S. Company of Hot Springs. This was another declaration of trust proposition. I arranged with this company for a drawing account for myself and $50.00 a week for each of my ten salesmen. I started them out only after I had had a distinct understanding with the company that they were to immediately reorganize as a corporation. I instructed my salesmen not to make any special effort to sell the security until the reorganization was assured.

This company's offerings were fragrant misrepresentations. Their prospectus referred to their company as a corporation and their security as preferred and common stock. Under a declaration of trust only certificates of shares can be sold. Their prospectus did not state that the elective powers of this company were controlled by a board of trustees. Their declaration of trust authorized $75,000 preferred certificates of shares $10 par, and $150,000 common certificates of shares $10 par.

This concern had acquired a pavilion and two springs on the main thoroughfare at Hot Springs, which had been a losing proposition for some time. One spring was known as the "D" spring, the other as the "R" spring. They were selling certificates of shares for the purpose of remodeling the pavilion, adding a dance hall and refreshment stands. They were also bottling and distributing the spring water.

The president had been a former resident of Hot Springs and had operated a saloon known as the "show place" of Hot Springs. The secretary-treasurer had formerly been engaged in the coal and lumber business in Minneapolis, Minnesota.

Two weeks after I started on this proposition, I again took up the matter with the secretary-treasurer regarding the reorganization. This man tried to make me believe that they were a corporation, were selling stock and did not intend to change. I told him plainly that I would not place myself or my salesmen liable under such misrepresentations. I waited one week and then tendered my resignation. I wrote the salesmen

that I was through financing until I could find a clean, meritorious proposition. I then asked them to protect themselves by getting on another proposition or take the $50 and go to their respective homes. They all complied with my request—went home.

I was reliably informed that these men were financially able to finance the entire proposition had they cared to do so. In February, 1921, I read in a Little Rock paper that they had taken out a Missouri charter. I presume they eventually realized their mistake. Since then I have heard nothing further from this concern.

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I loafed in Arkansas until March, 1921, at which time I took up the stock sale in Missouri of a Chicago Rubber Company. I first operated out of Springfield, later moving to Jefferson City where I was more centrally located. This company was chartered under the laws of Delaware with an authorized capital of $1,000,000, all common stock, par value $10.00.

Before I commenced selling this stock, they were operating, according to their prospectus, a tire factory at Bedford, Ohio, and another at Centralia, Illinois. They were supposed to be manufacturers of rubber clothing also. This was confirmed by the vice-president at a meeting in February 1921 in Eureka Springs, Arkansas, prior to my employment.

In April, 1921, I met the vice-president again in St. Louis. It was then that I learned that they were not manufacturing rubber clothing and had not commenced erecting a factory at Centralia. They were, however, having tires made under their brand on contract at Bedford.

Their plan to promote the sale of stock, which is not a new one, was to offer the purchaser of ten shares or more at par the privilege of buying tires at a reduction of 33 1/3% from their regular price list. About $1500 worth of tires were purchased in June by stockholders whom I had secured in Jefferson City. Upon investigation I found that their list price was 15% to

25% higher than that of the manufacturers of standard grade tires.

On July 9, 1921, it came to my ears that Illinois stock holders had asked for a receiver and a restraining order to prevent construction of the Centralia plant. July 11th I wired the company, and on the 12th wrote them asking whether these reports were true. Not receiving any reply to my telegram I became suspicious and did not offer any more of their security.

I then made arrangements to leave the state and go to Michigan. On July 18th, the day on which I was leaving, I received a letter from the company asking why I had not sent in any business. In this letter they answered my telegram and letter by stating that a cheap lawyer saw a chance to make some money by inducing some stockholders to get an injunction against the construction of the Centralia plant.

As near as I can find out this company had been trying for three years to finance. I do know this—that their cost of financing is too high, and judging the management from the manner in which they handled tire sales and shipments, the company will not succeed.

This concludes my experience, excepting smaller issues of minor importance.

When reading the foregoing experiences, do not skip through them hurridly. Stop after each experience, analyze the proposition, and ascertain, in your judgment, why the company failed. The evidence is plain. I have been more than fair and just with the various companies.

When I look back over my stock selling record of the past fourteen years, I feel somewhat ashamed of it. I excuse myself in knowing that if I had not sold the securities someone else would. Under our laws my operations were perfectly legitimate. I made no representations that were not authorized and approved by the men who were officers and promoters of the various companies.

I can truthfully say that during all my experience every sale made by me was turned into the companies with settlement under their terms and conditions.

You would naturally suppose that at some time or other stockholders would have attempted to give me trouble. If anything like it was ever contemplated, I never knew of it, **except once.** I never tried to hide or lose my identity.

When I was on the G. S. A. of Chattanooga, I was told by one of the stock salesmen who also operated in Mississippi that a stockholder in Grenada had had me indicted. I wrote to Grenada for confirmation and found that a lady who had bought some stock from me had gone before the grand jury, but none of the other stockholders would confirm her accusations. Consequently she failed in her attempt. The lady in question was a middle aged widow, and was the housekeeper at the hotel where I was stopping.

In some way she learned my business; also that prominent business men in the town were investing. She requested the manager of the hotel to have me call on her. I declined, stating that this was a man's proposition and that I did not solicit ladies. The manager delivered my message, and she was very indignant. She called on me and gave me to understand that she was a business woman, and perfectly capable of hand-

ling her affairs; further, that her money was just as good as any man's, and that I had no right to decline to accept it.

I compromised with her by giving her some literature and application blanks, telling her that after reading it over if she cared to invest to fill out the application blank and leave it together with her check with the manager of the hotel. This she did the next day, and I sent it in.

In all my experience this is the only party that I know of who would have given me trouble.

The question naturally arises: Did I invest in any of these companies? Not a dollar, excepting the G. S. A., and that I did not lose. I had bought a block just before the last advance, and a party who had thrown considerable business my way wanted it. He insisted that I let him have it. I thought that I was doing him an unusual favor when I granted his request, but it turned out to be a very lucky transaction for me.

I thought the company was as sound as the rock of Gibralter; it proved to be a good lesson for me. I never invested or lost a dollar in any of the companies where I acted as fiscal agent or stock salesman.

In reviewing my record I have one consolation, for which I am thankful—that I never took advantage of a purchaser or abused their confidence.

I made it a rule not to sell ladies; therefore, I have no widows and orphans to be accountable to. In my fourteen years I never sold over one-half dozen ladies and then only when they were well-to-do and handled their own business affairs.

I never asked a purchaser to buy. I simply explained my proposition so that they sold themselves and set the amount. No man or woman can say that they ever heard me say "I want you to buy" or "can I put you down for. . . . . shares."

I always explained to an investor when he was buying not to take any more than he could handle without embarrassment. I never made an effort to sell a

security a second time to a purchaser. Many times I have had prospective purchasers say: "I would like a good block under certain conditions" which conditions I could easily have arranged. However, I would suggest that they take an amount which was convenient for them to handle, and later if they wanted more they could buy it.

I would agree to keep them informed in case there was any change in price. Promoters have censored me for this more than once. To illustrate, in a Pennsylvania town a man had just sold a mill and elevator for $30,000 which represented his entire assets excepting his home. I presented my proposition, he liked it and explained that he had just sold his property for $30,000, $10,000 cash and the remainder to be paid in thirty days. He stated that he would like to invest it all. I prevailed on him to take $10,000 and when he received the $20,000 to take more if he cared to. I did not call on him again or give the tip to another salesman and therefore saved him $20,000.

How Do They Get Away With It?

If you will stop a moment and reflect, you will see that this is easy. Everyone is engaged in the same occupation—buying and selling. There are no exceptions. The laborer, the clerk, the minister and the professional man sell their services—the banker is selling services and money—the business man and farmer are selling their products. In turn we are all buyers of something which promises gain or profit.

It is the ambition of most every man or woman to create as large an estate as possible. While most all insist on doing it honestly and legitimately, some will resort to unfair means. You must understand somewhere and in some way a market can be created for most anything.

The secret is in creating a market. It is hard to believe, but there is still a market for the gold brick, counterfeit money, wire tapping, etc., and there always will be. We frequently read in our daily newspapers where some one has made a substantial purchase, and there are a great many such purchases that do not reach the eyes and ears of the public.

Many a good thing that would have been a great benefit to mankind, and a great source of income and profit to the originator has been relegated to the junk pile and scrap heap because of lack of initiative, tact and ability on the part of the originators and producers to devise a marketing plan. On the other hand a great many things with no value, in the hands of those with ability, have found ready sale and a market and have continued on indefinitely with great profit to the originators and producers. Of course a new purchaser must be found each time.

This is also true in financing. A great many things which have no merit have been financed, while others with merit have, for lack of ability on the part of the management, never even made a start towards creating a market for the security.

The original capital necessary to any enterprise is **BRAINS.** They can get the money. The success or failure in financing an enterprise will depend entirely upon this factor.

That selling is a science cannot be disputed. Some salesmen are trained by experience along special lines of business and professions, while others can adapt themselves to any line of business.

As a simple illustration, why does the Italian make a success of a 2x4 fruit stand? The answer is that he has the knack of knowing how to place his wares to attract the eye, thereby creating a desire. He polishes his apples, sandpapers his pecans and arranges them conspicuously and attractively. This same Italian would probably be a failure in a department store.

The art of framing a successful stock selling campaign can be compared to a beautiful painting. A plan must be conceived, and put in type and printers ink in such a way that stock salesmen can paint a mental picture of safety and profit.

Safety and Profit can be the title for a new invention, oil and mining leases or a commercial enterprise.

The next step is to get the material, which is men with influence and a reputation for fair dealing. They should be men who have been reasonably successful in accumulating worldly goods. They are persuaded to become officers or go on the board of directors. If they cannot or will not invest, free stock is given them. Next they should give a written endorsement of the proposition, and also boost it verbally. When all the necessary material is obtained, the next step is to get the canvas.

The canvas we will call a charter, which is usually secured in the state where the broadest and most liberal can be had for the money. When this is received, and the organization completed, the next step is to get a good painter, an artist in his line.

If he cannot be found among the officers, employ him to put the enterprise and material in type and

printers' ink with a smooth, fluent flow of forceful language. He will show the unusual profits of similar concerns, which can be attractively displayed.

Then frame the picture with well appointed offices and swell furnishings; and the picture of Safety and Profit is then complete.

After you have framed the picture, secure some high grade stock salesman on a liberal commission basis, and if they are willing to finance themselves, have the officers give them some names of acquaintances and the printers' ink. They will then sell Safety and Profit unsight and unseen, and the shekels will begin to roll in.

Do not infer from the foregoing that all men who become identified with such companies in such a manner are a party to misleading the public, because too often they place too much confidence in others, and do not use the proper precaution by thoroughly investigating and keeping in close touch with the company's affairs.

It is claimed that the president elect of the S. L. Insurance Company of Memphis collapsed when he learned that the G. S. A. Company had failed. He was a strong man but this affair so preyed on his mind that he soon became ill.

Now this man was president of a very large Memphis bank, and was a man known for fair, straight forward dealing. He was always ready to support anything that would be a local benefit. He was solicited to become a stockholder and president. Already a great number of well known southern business men had subscribed, so he did not take the usual precaution of investigating the origin of the company, the contracts, etc. He, like myself, thought the plan was so well laid that success was assured, and it looked foolish to even think that any man or set of men could be a traitor to such a promising business.

This man did not worry over his individual loss, but it was the loss sustained by those who invested in the company because he was to have been president,

and because he had endorsed and recommended the investment.

Another similar deal one year later was pulled off in San Francisco. When the company was turned over to the officers and a settlement was made with the promoters, the president realized what the promoters would receive and how the supposed surplus of the company would shrink, he dropped dead in his office.

Few men know or will take the time to find out that it only requires three or more men to organize. Two of the three men may be straw officers who are used to organize, make contracts, confirm them at the command of the instigator. Then go after big men and interest them in placing them on the board of directors. These men believe in the proposition, go into it in good faith, endorse it, work for it, and do everything they can to assist in financing, only to find when the day of reckoning comes that they have been misled.

The main trouble is, too many investors rely on the honesty of others, and so few are familiar with our corporation laws, privileges, restrictions, etc. There is not 1% of the male population of the United States who have invested in stock that ever saw a charter or a set of by-laws. Ninety per cent do not even know the distinction between perferred, common and no par value stock.

Another mistake is made by judging the qualities of a man by the money he accumulates. It doesn't matter how unfair or unscrupulous a man may be, he can always find associates.

For illustration: I recall a man who, when a boy, was a disgrace to the community. There wasn't anything mean he would not do. At twenty years of age he had become a professional gambler, at which he accumulated enough money to lease a vending coin machine, and as the profits grew he acquired more machines. Eventually he had about $40,000. In the meantime he had secured some stock in both local banks and was elected to their board of directors. He

now has become a respected citizen. The foundation is laid should the opportunity present itself to him to lend his influence to anything within the law where there is money to be made. He belongs to the class whose motto is "get the money."

There is another type of man who is absolutely honest, and who has made his money by the sweat of his brow. This man has always been envious of the man with clean face, unsoiled hands, boiled collar and shirt, who has also accumulated wealth. So when the opportunity presents itself for him to get in the boiled shirt class he is ready to grasp it and get some easy money.

The majority, however, are honest and believe all others are honest. They are persuaded to go into these things, and on account of their ignorance of the corporation laws and their working privileges, they are carried along by a leader and nod in assent to everything this leader suggests. In this way they become innocent parties to anything their leader wishes to do.

THE PROMOTER

The word promoter has a broad meaning, and covers everything of a promotion nature. In financing the term is applied to those who have charge of securing capital.

The originators of an enterprise, an invention, or the owner of oil leases, if not active in financing a company, are not termed the promoters. One man, or group of men, may originate an enterprise, but they may employ another man to promote it.

We have promoters in plenty; they are to be found in every community where progress is found. They should be encouraged when it is for the good of the local community and not solely a selfish interest.

We have a great many high class, well meaning promoters, who are constantly on the lookout and are planning things that will bring about better local living conditions. He is the man who says: "We need better roads, better streets, better sewerage, pure water, better lighting system. I cannot do it all myself, but will head the list with my money, and will go on a committee to assist in getting it up." He is the man of the community who is far sighted, studies the situation, takes the initiative, and stands by the guns to the last trench.

He calls a meeting and explains that good fortune has favored them with an opportunity for good water power if haltered. Let us harness it and invite factories to locate with us. On the other hand he sees unusual shipping facilities.

This unselfish promoter brings you your bank, your factories, etc., which means more opportunities for business men, increases value of real estate, and makes better marketing facilities for the farmers.

Other promoters in the same community may see an advantage in better school buildings and facilities for better education. Another may be the instigator

and promoter of your local commercial club, whose duties are fulfilled by everybody putting their shoulders to the wheel. These are the promoters who put in their own money, time and good will, and protect your interest as well as their own They are the promoters that you should support.

Illustration: These promoters, after careful consideration, decide that John Doe of the community is reliable, dependable, and capable of managing a shoe factory. Or a man in another community is known to them who is experienced, dependable and capable, who is willing to invest and assume the management. These promoters devise plans, lay them before you with the explanation that they believe a shoe factory would pay, and are willing to head the list with their own money. Under these conditions it is your duty to listen, and if in your judgment the plan is feasible, no selfish interests being displayed, it is your duty to support it.

The Promoter You Should Avoid

Is the promoter who has a selfish interest, and plays only a winning hand. He must always profit, whether the company succeeds or fails.

Illustration: He lays his plans to organize a shoe company, selects first a suitable site, gets an option on it at a stated price, and arranges with the owners of the property that in case his plans carry, he is to be compensated by the owner. A side agreement is made accordingly.

He then takes out a charter for $1,000,000 capitalization, $500,000 preferred stock, non-voting, and $500,000 common, voting. After a charter is granted, he then induces the city to pay for the building site, and also a bonus for locating in the town. At the organization meeting, with his dummies, he votes to himself $251,000 common stock for services rendered, and also secures a contract to sell $500,000 preferred at par, drawing 7% accumulative, and with each share of preferred gives one-half share of common free. For this his contract provides that he is to receive 30% of the gross sale of stock. He further secures a contract with the company to be general manager of the factory when it is started, at a salary of $10,000 per year.

These contracts are duly authorized, made, signed and sealed, and entered in the minutes of the meeting of dummy directors. There can be only one of two results.

If the company succeeds, he has profited personally from the purchase of the building site, the sale of stock, and has his $10,000 a year salary. He also controls the voting power of the company. He can say what the dividends shall be on the common. If the company makes good earnings, he votes to pay no dividends on the common, thereby disgusting the stockholders with their holdings. This causes them to unload their stock at a sacrifice in what is a paying proposition.

On the other hand, if the company fails, the promoter has realized a profit on the building site, in the sale of stock, and has received $10,000 a year salary. The stockholders lose all. Although the company has failed, this promoter is O. K., because he has made money for himself.

It does not take a smart man to take advantage of the public's lack of knowledge in matters of this kind. Nevertheless, how often do you hear it said of a man who gets his money in this way that he is a clever business man.

This is the same promoter who capitalizes a patent, oil, or mining lease in the same way. He takes out a charter for a big capitalization, puts in the patent or lease for a large amount of stock, and while he is selling treasury stock includes his own private stock, selling it at the same time, which is most all profit.

We have still another class of promoter, who takes a proposition after the stage is all set for selling stock. He does not look into the merit of the proposition, and is interested solely in the sale of the stock. Usually such promoters are given a good block of free stock and an extravagant fiscal contract for financing the company.

This man is usually very clever and has the ability to take the stage setting and put it into printers' ink in such a way that it is easily sold. If a proposition of this kind in his judgment cannot be sold readily with big profits to himself, he does not touch it.

Illustration: When the author of this book was tendered a liberal contract to finance a company in Florida, had he been a promoter of this class, he would have financed a company in which the stockholders would have had no show in the world for their money. The company was formed and planned solely for selling certificates of shares for a profit.

CO-OPERATION

There is no word in the English language which has such a broad meaning as applied to financing. There is no other word that would mean greater success if our operations were confined to its true meaning. There is no other word that has been more misused or abused than CO-OPERATION. There is no other word that can lay claim to having carried the capitalization that CO-OPERATION has carried. It must have been originated for the purpose of obtaining capital and selling stock.

This word, when used in selling stock, opens the purse strings of the rich, the poor, the vain, the selfish and the miser.

There is no word so meaningless in the practice of selling stock. Without it the stock salesman has lost one of his best assets. The proposition that will not permit of its capitalization has hard sledding.

It is the only answer to the investor who asks: "If you have such a splendid investment, why do you solicit me, when I know of so many people who have money that are seeking investments such as you are offering me?" Mr. Doe, "We are not seeking your money; what we are after is your co-operation, which is worth more to the company than your money. We value your influence very highly, and consider that we are doing you a personal favor by permitting you to buy a limited amount of our security. We are allowing you this special privilege in return for the value of your co-operation in this company."

The word has been abused in every line of business, even to banking. A group of men decide that there is a need for another bank. They will scatter the stock in the community, expecting not only the stockholder's business, but his influence as well, and his assistance is securing customers.

This assistance and influence would be valuable to the bank if all the stockholders would co-operate in

this manner. They innocently forget this duty and obligation when they have money to deposit. Also when they want financial assistance. This is not the disposition of all stockholders, but does apply to the majority.

The reason for this can be attributed largely to the timidity and fear of the stockholders. A man who is able to acquire stock in a new bank, as a rule, has been accommodated and favored by an older bank. Because of these favors he has prospered, and he feels more or less under obligations to the older bank when he has any banking business.

There is another reason and that is, he feels perfectly at home with the officers of the older institution. They know his needs and are perfectly familiar with his credit standing. They always accommodated him when his demands were reasonable, and always gave him good sound advice. These things are not easily forgotten.

When this man takes stock in the new bank and promises co-operation, his intentions are good, but the older associates, like the old arm chair at home, are hard to give up.

He realizes when it comes to patronizing his own bank that the feeling of intimacy with the officers is not there. They are not familiar with his affairs, so he feels timid about unfolding his plans, etc., when they are already known to the older concern. When it comes to borrowing money, there is always an element of anxiety as to whether or not the accommodation will be granted. In consequence, when he has money to deposit he carries it to the older bank to maintain his credit standing. If there is anything in the world that is discouraging to an active, straightforward business man or farmer, it is a turn-down, no matter what the excuse may be.

This lack of co-operation is not always the fault of the stockholders. A great many times the blame can be attributed to the officers of the bank. They do not take the personal interest in the stockholders

that they should. The officers should make it a part of their business to establish close relations with each stockholder and depositor. The stockholder and depositor should be made to feel that the bank is interested in their success, and ready and willing to assist them in everything at all times when consistent with good business.

Co-operation is valuable when honestly applied. It is also valuable to the stock selling scheme, but in most cases very expensive to the investor. The trouble has been that the promoter only sought co-operation so long as it served in securing buyers for stock. As soon as the stock was sold, co-operation was discarded.

When selling insurance stock, the principal asset to the promoters is co-operation. They co-operate with the bank by giving them a depository and loan contract in return for an investment in the company, and co-operation in seeking other local investors. If the company ever becomes a licensed, going concern, these contracts are usually forgotten.

The chain store proposition: Mr. Farmer, if you will co-operate with us by buying our stock, we will reciprocate by opening up a local store and allowing you to buy your supplies at cost plus 10%. We will also agree to buy your produce, and your livestock. This will eliminate the middleman, known as the buyer, the commission merchant, and sell direct to the consumer. Under this plan we can buy your offerings at 20% above prevailing prices. In this instance co-operation succeeds in selling the stock, but fails to do the rest.

Mr. Car Owner, if you will subscribe for ten or more shares of our rubber stock, the investment will not only pay you well, but will enable you to buy your tires at 33 1/3% less than our regular printed price list. With your co-operation we will cut out the state agents, dealers, etc. Thus we are creating a market and financing at the same time, with but one cost.

Sounds good until you buy tires, and find that the price list is 25% higher than the lists of standard makes. When the company is financed the tire buying privilege is cancelled. Co-operation served its purpose again—sold the stock.

Mr. Car User, invest with us. We are establishing a tire and accessory store, to be owned and controlled by its local stockholders. These stockholders can buy their tires and supplies at cost. After the store is opened it is found that this plan will not work. It is found necessary to sell in the usual way. Co-operation served its purpose again by selling the stock.

Mr. Car User, we are organizing a local oil filling station. If you will invest $250.00 with us we can pay you handsome dividends on your money. We will also allow the stockholders a rebate of 1½c per gallon on all purchases of oil and gasolene. The filling station finds that it operates at a loss on this basis. Consequently the buying privilege is abrogated. Co-operation has served its purpose again.

Mr. Prospective Automobile or Truck Buyer, you no doubt are familiar with the enormous profits made in the manufacture of automobiles and trucks. Look at what Henry Ford has done. We have secured control of a new drive known as the double back action centrifugal drive. The president of the company used to play with Henry Ford's "bull dog," and is a find. He is a man who has extraordinary ability for managing this industry.

We want your co-operation; we value it highly. In return for your investment in our splendid company which will pay you large dividends, we are going to allow our stockholders to buy their cars and trucks at dealers' prices, thus you will profit in two ways. After the company is financed the story is different. Mr. Stockholder, we have found it necessary to abrogate our agreement. We find we must have dealers, and we cannot get them where we have stockholders who are getting the dealers' profits. Co-operation served its purpose again.

Mr. Lumber, Coal and Cement Dealer, we have located an excellent phosphate rock and shale bed. You undoubtedly know the enormous profits made by cement companies. They now have a cement exchange or association of manufacturers, which controls the price.

We are going to build a modern, up-to-date cement plant. We are confining our stockholders to dealers only, thus when we are financed we will have our distribution and dealers established. We will have no need for an expensive selling organization or manufacturers' agents. Therefore we can ship you direct at less than association prices, which allows you a greater margin of profit.

Mr. Dealer, we are financed, and we find that we must employ manufacturers' agents, cater to all dealers in our territory and get more money for our cement, so we will, for the sake of our investment, have to abrogate our exclusive dealers' contract. Co-operation served its purpose by selling the stock.

The word co-operation has been capitalized in every line of business and every state in the union for the purpose of selling stock.

OUR CORPORATION LAWS ARE NOT UNDERSTOOD

Our corporation laws are good laws and necessary to show pro rata ownership in a business where more capital is required than those in charge of a business are able to supply.

Consolidated capital properly managed has a great many advantages not only to the owners of such capital but to the general public.

Union of capital properly administered often reduces cost of manufacturing, selling, etc., which means reduced cost to the consumer. The above circumstances brought about our corporation laws.

Our laws are all right if adhered to, but too many make it a part of their business to apply them to a selfish purpose.

We should have a course in our common and graded schools in both commercial and corporation law. There is no part of the general education so sadly neglected as laws governing every day transactions. We first teach our children to read, spell, write, compute and use the English language. If we can afford it, we give them special training in farming, professions, etc. If they succeed they naturally have use for the principles of commercial law. They are sure to be solicited to join corporations at some time or the other. Why not in our common schools give our children these advantages? We teach them history, botany, physiology, rhetoric, etc., that are not nearly so essential in life as commercial and corporation law.

All of our states have corporation laws. In principle they are about the same. There may be some minor differences, such as the cost of a charter, privileges, taxes, etc., but in the main they are intended to answer the same purpose.

If a charter is desired, application must be made to the Secretary of State in the state where the charter

is wanted, on blanks provided for this purpose. This application, setting forth the required authorized capital, classified and divided into equal shares, and also setting forth the intent and purpose of the company, bears the names of the subscribers to the capital stock, with the amount subscribed set opposite their names. This application must be duly sworn to before a notary public.

It is then forwarded to the Secretary of State, who holds it until it has been published once each week for four weeks in a newspaper located in the county in which the company is asking for a charter to do business. If there is no reasonable or just reasons why such a charter should not be issued, the Secretary of State issues what is known as a charter for the company to do business, as provided under the corporation laws of the state.

An organization meeting is then held by the incorporators, and officers elected. They are usually a president, secretary, treasurer and board of directors. An officer can hold more than one office and can also be a member of the board of directors. The organization does not necessarily have to be completed at this meeting, but must be enough to function as prescribed by our corporation laws, and in keeping with the application for charter granted.

At this meeting at least 10% of the authorized capital must be paid in. The secretary must keep a record or minutes of all the business transactions at this meeting, which are filed away and usually read and approved at the next meeting.

The payment of this 10% does not mean that this must be paid in cash to the treasurer. It can be 51% and paid in services rendered or to be rendered, patents, real estate leases, etc. Here is where the unscrupulous take the advantage by inflating values, and causes to be issued what is termed "water stock."

Next, a set of by-laws are drawn up, approved, adopted and made a part of the record of the meeting. This is another opportunity for the unscrupulous

to take advantage of the situation. He can have the by-laws so drawn as to give one or more of them unlimited power and unrestricted control in the handling of the company's affairs and money.

Usually only the common or no par value outstanding vote, and seventy-five percent are required for a quorum. Each share is allowed one vote, and voting shares are only allowed to elect directors.

As already stated, corporation laws in the different states are not the same. Some states require that each share of all outstanding stock shall vote, preferred, common or no par value. The usual function of the officers is as follows: The president is usually known as the general director of the business, and dictates the policy of the company with the approval of the board of directors, and as provided by the by-laws of the company. The Board of Directors as a rule are in odd numbers such as 3, 5, 7, or 11, etc. In passing on matters of importance this makes the vote of the president the deciding or majority vote.

The duties of the secretary are to keep a record of all transactions of the company in keeping with our corporation laws; also a complete record of what is known as the minutes of the meetings of the board of directors. In addition to the minutes of the meetings, contracts, by-laws, charter, etc., this office has charge of the accounting department. In most companies the secretary is the first to receive all moneys, see that proper credits are made and at all times know the daily cash balance of the company. At stated intervals, usually daily, the secretary should turn over to the treasurer, all moneys received and get a receipt for same. The purchasing department should give the secretary a copy of all purchases made so that when the merchandise arrives and is checked off, the secretary can issue an order on the treasurer for the amount due.

The duty of the treasurer is to accept all moneys received from the secretary, and deposit in some banking institution to the credit of the company. He should only pay out money on orders from the secretary, and

at all times should know the actual balance, which should also be known to the secretary. The company usually issues a check signed by the treasurer. Some companies' by-laws provide that this check before becoming valid must be also countersigned by either the secretary or president.

The by-laws ordinarily provide that in case of absence of an officer, a designated officer shall act in his place. The by-laws may also further provide for vice-presidents to function in the absence of their superiors. Provision can also be made for an assistant secretary or assistant treasurer to act in the absence of the secretary or treasurer.

The president does not always hold the deciding vote. Sometimes the by-laws provide for the chairman of the board of directors to have the deciding vote. Again this chairman of the board of directors may be the president.

The by-laws of a company are also subject to amendment according to their provisions.

Under the laws of some states the by-laws are made and adopted by a quorum vote of the stockholders. These by-laws contain the duties of the various officers. Again the privilege of making by-laws may be empowered to the board of directors by at least a quorum vote of the stockholders. By-laws are usually made during the organization meeting. At this meeting the company may have only three or four stockholders.

Our corporation laws provide that the books and records of a company shall at all times be accessible to stockholders of record unless it can be shown that a stockholder is prejudiced against the best interests of the company. The stockholder has recourse in case this privilege is denied. He can sue for an accounting. A certain amount of voting stock can also get a restraining order or an injunction when good and sufficient reasons are shown that the affairs of the company are in strained circumstances, or the company is operating irregularly. Our corporation laws define these privileges very clearly.

Declaration of Trust

There is nothing new about a declaration of trust, but it has only come into general use since the advent of our blue sky laws and blue sky departments in various states. After most of our states were operating under these laws, our questionable promoters tried to find a way to defeat them. Most of our states had made no provision for the declaration of trust, so technically it did not come under the supervision of our blue sky departments.

This left an opening, as stated above, for the questionable promoter. He was quick to take advantage of it, because he was not obliged to seek approval of it in the various states under our blue sky laws. As a further disguise some of the promoters got up their literature in such a manner as to make the public believe that they were operating under our corporation laws. While the application blanks or contracts for the purchase of stock would read "certificate of shares" very few purchasers knew the difference between an application for stock under our corporation laws, and an application for certificate of shares under a declaration of trust.

Certain firms of lawyers in large cities soon found this field of operation very profitable, and advertised throughout the country the advantages of a declaration of trust. Consequently a great many declaration of trust companies sprang up all over the country. A great many innocently availed themselves of this opportunity to capitalize, not understanding the true character of such a trust, nor did they abuse these privileges, or have any intention of doing so. Others less scrupulous took advantage of all the powers given them under such a declaration of trust which eventually placed this manner of doing business in bad repute.

A declaration of trust, under certain circumstances is very necessary, and not only works to the best interests of the stockholders but the general public as well.

This is why such a privilege of co-partnership was created. A declaration of trust is advantageous in this respect—where a company of large capitalization has become financially involved, and immediate financial assistance must be had. I have in mind one very large concern well known all over the United States. At the time they were capitalized at $20,000,000 and were obliged to have $6,000,000 immediately, or ask for a receiver. This company secured the $6,000,000 under a declaration of trust agreement with the understanding that those furnishing the $6,000,000 could take charge of the business for a stated length of time until the money could be returned to them without disturbing the corporation.

Under the terms of this declaration of trust it was provided that the trustees would loan the $6,000,000 under certain conditions, namely; that they be privileged to direct the management of the company, weed out all dead timber, and such parts of the workings that were unprofitable to the company.

There are many such instances as this, where a declaration of trust fills a great need. It also serves the purpose, under what is known in our corporation laws as a closed corporation.

A company is termed a closed corporation when the entire authorized capital is all subscribed and paid in when the charter is granted. A declaration of trust can also be applied under the same circumstances to good advantage. A declaration of trust is a co-partnership agreement providing for the intent and purpose of the company, and can be drawn to conform almost to our corporation laws, excepting that the board of directors are known as a board of trustees. Under a declaration of trust the officers are elected by the board of trustees from their number, and usually this board of trustees are given broad and unlimited power with a further provision that they are not to be censored in directing the management of the affairs of the company.

A declaration of trust can be so drawn that none of the share holders may vote, and only the board of

trustees can fill a vacancy in case of death or resignation of one of its members.

A declaration of trust should be placed on file in the county where the executive offices of the company are located, and should be accessible to those who may wish to become financially interested in the company.

Under a declaration of trust they may classify their shares, and they may vote, but remember that this is a co-partnership agreement and such a company does not come under the jurisdiction of our corporation laws.

A great many of our states were quick to see how the public could be mislead and their confidence abused under a declaration of trust and immediately made this manner of doing business subject to the supervision of their blue sky laws, while others have not done so.

One, when investing, should make sure whether they are buying corporation stock or certificate of shares in a declaration of trust. If found to be a declaration of trust every means possible for investigation should be used before investing money. The well meaning company will have no objection to this, and will welcome such an investigation. Those who are inclined to take advantage of the public will be found out.

It can be readily understood that there must be some advantage to an organization where they choose to operate under a declaration of trust when each and every state has corporation laws under which a company can operate In other words when it is found that an organizing company is operating under a declaration of trust, there is a reason for it. This reason should be found out before investing.

Our Blue Sky Laws

This law originated in the state of Kansas about fifteen years ago. At that time Kansas had become very prosperous, and was located close to our mines and oil fields. The public was being abused by unscrupulous oil and mining promoters to such an extent that blue sky laws and a blue sky department were created which provided that securities to be sold and plan of operation must conform to the blue sky laws. Then a permit or license is given authorizing the company to solicit subscriptions.

Two years after this law was made and the blue sky department created, the then governor came out with a public statment claiming to have saved the investing public over $7,000,000 in two years time. With this good showing, other states commenced to pass blue sky laws and create blue sky departments, and it has taken practically fifteen years for the other states to apply the same laws. This situation brought out the declaration of trust.

While our blue sky laws and blue sky departments are well intended, they are handicapped in most states in covering the situation. In some states they have been detrimental. An article was published in the Kansas City Star in April, 1921, that the investors were seeking a blue sky law that had teeth in it because their present law instead of becoming a protection had become an asset to the unscrupulous promoters. This statement claimed that Nebraska had invested over $200,000,000 in 1920 in stocks that had turned out to be worthless, which had been licensed by the blue sky department of Nebraska.

It is a well known truth that companies that were able to get a permit from our blue sky departments by the skin of their teeth have immediately on getting this permit, capitalized it, and the permit of their salesmen in selling their stock. One great fault with our blue sky laws today is that they are not the same in the

various states. Then again the officers of the blue sky departments must grant a permit to the company that is organizing in keeping with the state corporation laws. If they did not the state would then become liable to the company applying for any damage or reflection caused.

Blue sky departments function differently in different states. In Michigan there is what is known as the Michigan Securities Commission, which consists of some of the state officials in conjunction with the state banking department, while some states function through the secretary of state, insurance department and state banking department Each state has different laws and different rulings that can be applied.

For illustration: A company chartered under the laws of Illinois with general offices in that state may not be able to qualify under the laws of Illinois, but can obtain permits in other states. The author knows of one company operating in Central Illinois that was denied a permit to sell its stock in the state of Illinois, but by disguising this fact were able to sell their $1,000,000 capitalization in other states.

Some states will permit of excess promotion allowance such as inflated values for free stock and a large cost permitted for organization.

The author was offered three different propositions in the state of Missouri during the month of April, 1921, and turned them all down on account of their excessive allowance for patents, real estate, etc. These companies had been passed on by the blue sky department and were issued a permit to sell their stock by the state of Missouri.

Our blue sky departments are handicapped in some states on account of limited powers in regard to allowance for patents, real estate, services rendered, etc. The personnel of the company is not considered by the blue sky department.

For illustration: One of the companies who solicited me to sell their remaining treasury stock was located in St. Louis. Their charter called for an authorized

capitalization of $1,000,000. The company had been allowed by the state of Missouri, $600,000 of the treasury stock for their patent. This amount had been issued to the owners of those interested in the patent. The remaining $400,000 of treasury stock was offered to me to sell at par. I was to have been paid 25% commission for selling it.

This company's patent covered a cotton picking machine which when atached to a tractor was supposed to save time, labor and cost of picking cotton. Upon a thorough investigation I could find no absolute proof that this machine was mechanically perfect, would stand the strain and was fool proof. Further the investigation that I made of the personnel did not show that these men were capable of manufacturing and selling a machine of this kind.

Even though the machine was perfect, the personnel good, the company would have only $300,000 working capital when it was completely financed, yet there would have been $1,000,000 outstanding stock on which to base an earning.

Another company was located in Springfield. This company had an authorized capitalization of $1,000,000. They had been allowed by the blue sky department of that state, $501,000 or 51% of the stock for patents. Also 25% for selling the treasury stock. This company had obtained this amount of stock for patents covering the machine that would manufacture its own gas as it was used.

According to the literature of the company, this machine was particularly applicable and desirable where farmers wished to have their own water power, lights, etc.

When I was being offered this stock to sell, it was pointed out to me that as the stock was being sold the price would be increased, and as the blue sky department made no provision for controlling this surplus, it could be divided between the promoters and myself as fiscal agent.

The author made a thorough investigation of the personnel, and found they were men who had not made a success of any business and were not financially responsible. Consequently he declined to accept the contract for selling the security.

Another company was a declaration of trust which had not been filed with an authorized capital of $300,000. This company had acquired a limited number of acres of supposed tripoli rock. There was no doubt as to there being tripoli on this property because they were making a washing powder and in a small way had been making filters.

Under this declaration of trust, two men were to be given $151,000 worth of the certificate of shares for this property. One of the men had at one time invented a threshing machine, and the other was in the laundry business. These men were not experienced in manufacturing such articles as are manufactured from tripoli. Neither had they any experience in marketing such products.

They had also amply protected themselves in handling the affairs of the company. They wished to sell $149,000 worth of certificates of shares with which money they were to build a factory at Springfield, Missouri.

There had never been a test made of the property to ascertain the tonnage of tripoli. The author declined this offering and advised them to take out a charter under the laws of Missouri.

In the judgment of the author, where stock is to be allowed for properties of this nature, it should not only be tested to find out the quantity but should also be appraised by outside disinterested parties, and only an amount of stock allowed in accordance with the appraised value.

As stated before these circumstances teach that our blue sky laws should be uniform, and an exchange created among the blue sky departments of the different states. Every protection and authority consistent with good business should be given the officials of our blue sky departments.

In a limited way some blue sky departments require a company to comply with certain rulings as to publicity and advances in price. These companies should also be required to furnish at the end of each week a financial report to the department. Some states merely require the company to be licensed. The permit is given and no further supervision is made during the financing of the company.

Another provision that should be made is that under no circumstances can stock that has been issued for services rendered, real estate, patents, leases, etc., be sold until after the company is completely financed.

A great many times the officials of our blue sky departments are seriously handicapped on account of our laws, although they try with every means available to them to protect the public.

The capitalization of state permits and salesmen's permits to sell stock. We wish to explain how this is done. A stock salesman will present his proposition, the purchaser will say it sounds good, he is interested and will after making an investigation decide what he will do. The stock salesman or promoter then makes capital of his license by showing it to the prospect stating that such an investigation has already been made by the state and approved as this license signifies.

The salesman further explains that the requirements of the blue sky department are such that it would take the prospect six months to make such an investigation as is made by the state in which such permit is issued. They will explain to the prospect that their license is a recommendation from the state, so you will readily see how the intent and purpose of this permit is abused. All these permits, if carefully read, provide that the state in granting same does not recommend any security, which means that the state has investigated as far as possible, and under its laws has granted such permit. In bold type it tells the prospective investor to use his own judgment and to make further investigation.

Banks Are Ready And Willing to Co-operate With Their Customers

All banks are very much interested in the organizing and development of industries that in their judgment would prove profitable to stockholders and at the same time be of general benefit to the community. They are never found slackers when it comes to financing worthy legitimate enterprises, because largely the success of a bank depends on the resources of its surrounding territory.

Banks, however, are very careful and thoroughly analyze a proposition and make sure that it is practically free from the extreme commercial hazard before they will co-operate with and support such an enterprise. Banks are operated by men with broad experience who are more or less familiar with all lines of business. They come in contact with those who are in all lines of business and become familiar with their inner workings. Consequently, they are better qualified to analyze and pass judgment on investment offerings.

For years banks have in a dignified, conscientious manner tried to protect their customers against hazardous securities. The success of a bank will be in keeping with the amount of its deposits which are in turn loaned and used in assisting enterprises that are practically free from commercial hazard. This is not only to the interests of the stockholders of the bank but to the stockholders of the enterprise as well.

Banks as a rule make it a part of their business to follow progress no matter where it goes. Thus they are familiar with what is going on throughout the country. Present day banking and banking of forty years ago can be compared with the present day twin screw steamship and our old walking beam side wheeler that was in use years ago.

A legitimate straight forward promoter has no hesitancy in going direct to the banker. The banker after

analyzing the proposition, if in his judgment the enterprise is worthy of financing, is ready and willing to lend his support and co-operation. On the other hand if he does not find that it is free from extreme commercial hazard he will have no hesitancy in saying no.

Bankers throughout the country have for years been trying to render a service to investors such as will be given by the National Investors Service Bureau. Bankers know immediately the brand of an unscrupulous promoter and have no hesitancy in discouraging investments in enterprises where selfish interests are involved.

The promoter or stock salesman selling hazardous securities has no love for a bank. They will in every way in their power keep a prospective investor from consulting his banker, knowing full well that the banks in a very modest manner will discourage investments in anything that is hazardous.

This is not selfish advice given out on the part of the bank. It is a part of their duty to safeguard as near as possible their depositors money, because it is to the mutual interest of banker and depositor. It is a fact that depositors have made investments in questionable securities until their credit has been actually impaired with the banks.

Banks watch their clientel carefully. As soon as they find a patron not using proper precautions, making hazardous investments and taking games of chance, they consider the paper of such a customer a hazardous risk. They do not know at what time such an investor may be taken in by some unscrupulous promoter and ruined. This has often been the case.

A great many banks now-a-days have created a department to assist in developing local enterprises. Sometimes the securities are underwritten by the bank. These offerings can be depended upon to pay the investor a legitimate return. It would be wise for those who have money to invest to first consult their banker and find out what they have to offer.

Investors should remember this—that their bank has their interests at heart, and should be consulted when buying securities that are being offered to the public. As a general rule the banker will not say: "John, do not invest," but he will analyze the proposition and explain it to you in a way that will leave no doubt in your mind as to the soundness of their judgment.

The promoter selling the hazardous securities will do everything possible to keep you from consulting your banker. Should you tell him that you expect to consult your banker he will do everything in his power to discourage you.

This often keeps an investor from doing the thing he ought to do. The stock salesman's stock in trade when you suggest consulting your banker is this:

"Mr. Investor, if your answer is dependent on what your banker is going to tell you, I will not return to see you for I can tell you in advance what he is going to say. You understand, Mr. Investor, that the bank is in the banking business to get your money on deposit and loan it to the profit of the stockholders. Consequently it is quite natural that the banker will discourage any investments which would mean the withdrawal of a deposit. He is not interested in you any further than the bank can profit by your being their customer. Mr. Investor, do you consult your banker when you wish to buy a cow, when you are buying your seed corn, as to how many acres you shall plant? Do you consult him when you wish to buy your fire insurance to protect your property against fire? Do you consult him as to making your will and who shall receive your estate after you are gone? No, you should be your own judge and conduct your business as your judgment dictates.

"Allow me to ask you, has your banker made you what money you have? Is he responsible for the

money you now have on deposit in his bank? If not, why consult him? His interest is selfish."

The author's advice to an investor is to use every available means for investigating before investing in stocks. Do not be afraid to consult your banker, for it is not only his duty but his wish to help you protect your money and prosper.

How the Average Investor Is Trapped, or Rather Induced, to Buy Securities

The first thing necessary to make an issue of stock sell readily is to lay a foundation that seems reasonable and feasible whether it be capitalizing commercial enterprises, patents or leases.

The next step is to interest a few men who have influence and prestige, and who are willing to back up the representations made by the promoter. Enough vacancies are left on the board of directors so that they can be distributed here and there where they will be of the most benefit in assisting in the sale of stock.

The word "co-operation" must be applicable somewhere in the proposition, and used as a good logical reason for soliciting subscriptions from the general public. Without this element a stock offered to the public is hard to sell.

The usual procedure after the stage is all set, is to follow the line of least resistance. The officers and board of directors will write very strong letters on their own letter heads, setting forth reasons for being interested, and in their judgment the business will prove profitable. They also state that the business will be managed by clean cut, capable business men.

After this the officers will, whenever the opportunity presents itself, have something good to say for the company. They will also give the company names of acquaintances in other towns. In this way the nucleus of a stock selling campaign is laid. Selling stock can be compared to a snowball rolling down hill; the longer list of stockholders that can be shown, the easier it is to get more.

In selling stock, the old axiom proves true. Get the bell-wethers of a flock of sheep and the rest will follow. As stated heretofore in this book, very few of the average investors are able to analyze and pass on the merit of a proposition.

Further they are not familiar with our corporation laws and declaration of trust as to how these organizations are made up. Therefore, they measure the future prospects of such a company by the names of those who already have become stockholders.

The average stockholder is approached in this manner: "Your name was handed us by Mr. Blank, who is one of the directors of this company. He asked us to submit our proposition to you, believing that you would be interested in something good." The proposition is then laid before the prospect either in person or by letter. It is, of course, made to sound like an unusual offering, and the investment is usually made on the judgment of the man who gave the name, instead of the buyer using his own judgment.

Usually a very active campaign is made to interest all the people possible in the town where the enterprise is to be located. Each and every one is solicited to buy on account of it being a local enterprise. This support is usually obtained, and in most cases the investment is made on account of the influence of the men who are at the head of the proposition, and the fact that it is a local concern.

This is splendid material to use in conjunction with co-operation in soliciting outside capital when it can be shown the prospective investor that the local people, who are supposedly thoroughly familiar with the proposition, are investing their money.

This local influence is a part of the endless chain. One stockholder made will lend his influence in getting five more.

The hardest question for the promoter to answer is when the prospective buyer asks: "Why do you solicit me when there are so many men with more money than I, who have greater influence and are seeking good investments?" This is answered in two ways. If the company is being organized in a small town it will be explained that the town is small and that there is not enough capital there to finance the enterprise. This makes it necessary for us to seek out-

side capital. Further, we would not sell it all in our town if we could for the very reason that the wider the distribution of stock the better it is for the company. We value the co-operation of our stockholders more than we do the money they invest. This is why we allow you only a stated amount of stock.

If the company is located in a large city, the answer is practically the same with the exception that it is explained that those who could be interested in the large city if given the opportunity, would take their entire offering which would mean control of the company and the elimination of the co-operation that can be obtained by wide distribution of the stock in various localities. This all sounds logical and reasonable, and usually the prospective buyer swallows it hook, line, sinker and all.

Should the prospect be a man of great influence and well-known, he will be tendered a place on the board of directors, because possibly through his influence a hundred or two thousand dollars worth of stock can be sold. This practice will be continued until the board of directors is complete as provided in the charter.

When the company runs out of openings on the board of directors, sometimes a fictitious official position is created, such as associate member of the board of directors or a member of an advisory board. As many of these positions will be created as is found necessary in the sale of the stock.

It is explained to the prospect that the reason they have been placed on the advisory board or associate board of directors is because they value their business ability and counsel to the company. It is also explained that they will be requested to attend all meetings of the board of directors and will be paid their travelling expenses and the usual $5.00 per day for their time.

If a prospect intimates that he will be unable to devote too much time to the business itself, he is told that these board of directors' meetings are only held

once or twice a year. This of course would take very little of his time.

It is surprising to know how many men will fall for opportunities of this kind, when the offering is nothing more nor less than bunk. The chances are a hundred to one that such members will never be notified to attend a meeting. Nearly everyone who has money to invest is susceptible to offerings of this kind.

From the very day that a stock selling campaign is started, the plum (which is an increase in value and price, with the inside information that the stock is liable to advance any day without notice) is placed on the end of a pole and held in front of the prospective investor.

The prospective advance has caused many a man to invest money without taking precaution to make the proper investigation, because of the fear that he will be too late.

Various companies and promoters have different methods of procedure in this respect. Some will hold out to prospective investors that an advance is immediate, and the tenor of all literature and correspondence intimates this. However, they may never advance their price during the entire selling campaign. It is a known fact that companies have actually subscribed a million dollars worth of capital all at the one price, but from the very day that the campaign started the prospective buyer was led to believe that it would advance most any day.

Some companies that have a good crew of stock salesmen in the field use the following plan. These men will work for say 30 days, during which time they will have kept a list of those who are very much interested, and the reason why they have not been closed is for that lack of something which the literature or the stock salesman cannot create, or rather they could not whip the desire into a resolve to buy.

The company will then send the prospective buyer or stock salesman covering the territory, a strong telegram stating that at a near date and at a certain hour,

the security will be advanced $1.00 per share. This has the desired effect and brings the prospect into the fold.

This routine is followed throughout the stock selling campaign. Sometimes on account of this fictitious advance, stock may be selling at five times par before the sale is completed and before any work is done on the prospective factory.

The successful promoter keeps in close touch with what is going on and is always in touch with the pulse and feeling of the prospective buyer. This is true of their salesmen as well.

If the stock sale is being promoted by mail, a follow-up system is used until the sale is made. If it is being handled by stock salesmen, the promoter is in daily touch with the salesmen and is ready to back up any emergency that may arise.

For illustration—A salesman interests a prospective buyer to the extent that he will invest $500 and take a 90-day option on $4500 subject to the acceptance of the company. This is where an understanding has been made by the salesman and promoter either by wire or telephone.

On receipt of the settlement and option by the home office, a letter will be written to the purchaser in the following manner, as suggested by the salesman:

Mr. John Doe,
Blank, Michigan.

Dear Mr. Doe:

Your settlement for $500 worth of our stock received; also your ninety day option on $4,500 more.

We wish to thank you very much for the investment you have made with us, knowing that you have made an excellent one and that the only regret you can have in the future is that you did not buy more.

Regarding your option, we have advised our salesman that we regret exceedingly that

we are unable to comply with your request in asking this long time privilege.

The facts are, Mr. Prospect, our stock may be advanced any day; consequently, we have advised our Mr. Salesman to see you and arrange for some way to secure your wants now, thereby protecting you on the present price.

The officers and directors of this company are very enthusiastic over our future prospects, and our security is selling much faster than we had anticipated. Therefore, we are sure that we will be completely financed in a short time.

Again thanking you for your subscription and the interest taken in our company, which we are sure you will never have cause to regret, we are,

Very truly yours,
BLANKETY BLANK CO.

A copy of this letter is sent to the salesman, who hurriedly calls on the prospect, and then and there arranges terms, etc., which conclude the sale.

A great many companies lead prospective purchasers to believe that they limit the amount of purchase to any one person. The author of this book was never on a proposition that did not use this disguise in selling stock. The truth is that the promoters have already safe guarded themselves in the control of the company, and would not decline a purchase of any size. This limit talk appeals to the average investor who is not wise.

This limit is often set by the stock salesman, and will depend largely upon the amount of stock the prospect can afford to buy.

For illustration—The author called on a prospective buyer in Lexington, Kentucky. At that time there had been no sales made above $5,000. In talking to this prospect the writer made the statement that anyone could purchase only $5,000 worth of stock in the

company. The prospect stated that he was very much disappointed, because he had wanted to invest $10,000.

The author realized at once that he had made a mistake, and it required quick thinking in order to increase the sale to $10,000. He stood by the guns and accepted the $5,000 with the explanation that a party down the line had bought $5,000 and had intimated that he would be unable to pay for same which was then due. The author promised to see this party the very same day and if the $5,000 could be obtained, would wire back immediately. Of course this was arranged and the prospect got the other $5,000.

As a rule very few letters are written when a company is financing with stock salesmen. The correspondence is all done with the salesmen, and these letters are carefully coached so that there is no incriminating evidence to be found in them. If a letter is written to a stockholder or prospective stockholder, the letter is very carefully analyzed, and will contain nothing but suggestions. Very rarely will you find a letter which will estimate earnings or dividends that may be paid.

It would also be wise for prospective investors to analyze letters of endorsements. It is very seldom that a letter of endorsement will convey any definite claim or make any promises. This is especially true when written by a man who has had business experience.

Sometimes a lamb will be inveigled into writing a letter that is incriminating, but he does so innocently. Letters of endorsement usually read as follows:

Mr. John Doe,
Blank, Michigan.

Dear Mr. Doe:

Your letter asking me to tell you what I know about the Blankety Blank Company at hand.

Messrs. Elmer and Frank Doe, president and treasurer respectively of this company,

have been known to me for a number of years. I have always found them straightforward in their dealings with me, and I see no reason why the company should not be successful.

I have invested a blank amount in the company (or I have subscribed for a block of their stock) and believe that under proper management the company's security will prove an excellent investment.

Yours very truly,

A letter of this kind is absolutely worthless in judging the merits of a proposition. It does not tell the prospective investor anything that he should know. It does not explain the plan and purpose of the company, and does not state whether these men are experienced in handling such a business. In fact, there is nothing in the letter that amounts to anything or that can be used in passing judgment.

Therefore, anyone making an investment on an endorsement of this kind must be doing it solely on the judgment or confidence he has in the writer.

Mr. Prospective Buyer, have you noticed that you are always confronted with a list of stockholders, especially if it is a good long list? This is one of the companies' best assets in selling stock.

If the literature used by these different companies is carefully analyzed, it will be noted that there are no definite claims made. All claims are carefully coached estimates, and are supplied with plenty of "ifs." Great stress is laid upon the success of similar propositions and the figures brought out in prominent type.

The real information an investor should have on which to base his judgment of the merits of the proposition are lacking. For illustration, if the company owns and controls 40 acres of available tripoli lands and it is estimated that there are one million tons in the deposit at a capacity of five thousand cases per day, they could operate for one hundred years.

The claim should be as follows: We have 40 acres of tripoli lands. Test holes have been made every hundred or two hundred feet all over the property, ranging in depths from 50 to 100 feet of absolutely pure tripoli. Mining engineers have computed the tonnage at blank number of tons.

This statement should be supported by a statement from the mining engineers who did the work and a blueprint or drawing of the property showing the test holes, etc.

A statement should also be made that deposits from the different test holes had been tested by a reliable chemist and found to be as follows in each of these test holes. This statement should be supported by the statement of the chemist over the seal of a notary public.

Do not allow the company to sell you on "ifs" and "estimates." Do not be in a hurry to buy stock securities. Stock that will not keep over night is like perishable fruit and soon becomes worthless.

Nearly all stock selling propositions come out with the bold announcement that this is an unusual opportunity, and that opportunity knocks only once at every man's door. This statement should be reversed. Opportunity is always knocking at the door, but the unusual oportunity which brings ample returns for the investor's capital seldom knocks.

You also, no doubt, have noticed in big type, references made to such men as Jay Gould, E. W. Harriman, J. W. Hill, John D. Rockefeller, John Wannamaker, J. P. Morgan, Russell Sage, Marshal Field, Andrew Carnegie, Charles Schwab, Henry Ford, Elbert Gary.

The following statement is attributed to Jay Gould: "I invested my money in companies, when, in my judgment, the plan was feasible and the management good." The following to Russell Sage: "I always invest my money in young companies where in my judgment the plan is feasible and the management capable. The best profits are made in companies

when they are young, before their stock has reached high price."

Invariably mottoes are published of one or more of the above named men similar to the two given heretofore. Another saying that is universally used is one of Herbert Kaufman's, as follows: "In order to get a chance, you have got to take one. Sure things are poor things. When you strike a certainty you are sure to find that it has limitations. The gaining of great wealth almost means the taking of some risk."

They fail to tell you that the average stock offering is all risk when the public is given an opportunity to buy. We herein include some of the questions asked the prospective buyer by a tire company that is financing:

Where were you when the Dunlap Tire Company started with $112,000 capitalization and inside of two years had grown to a $15,000,000 company?

Where were you when the B. F. Goodrich Company of Akron, Ohio was organized with an original capital of $100,000? Bradstreet today places their assets at $94,000,000.

Where were you when the Goodyear Company was organized and its common stock sold at $.50 on the $1.00? $100 would purchase two shares.

Where were you when the McGraw Tire Company of East Palestine, Ohio, offered its stock?

Where were you when Alexander Graham Bell gave to the public the telephone? The lawyer who organized the company, and who afterwards became Governor of Massachusetts, refused to take stock at $10 a share for his fee of $3,000. Had he accepted the stock he would have received as his fee $60,000,000.

Where were you when Mr. Burroughs was carrying on his experiments with the adding machine and attempting to secure sufficient funds to finance it? The Burroughs Company has paid as high as 900% in one year.

Where were you when King Gillette was selling stock in his company in the city of Boston at $.50 a share? There were very few safety razors in use, and the average man did not foresee the great possibilities for Mr. Gillette's device. Many thought it a toy.

We might in turn ask the tire company submitting these questions, where were you when the securities of any of these companies were offered to the public. Was it during the process of organization or after the company had become dividend paying, and sold at a high price?

None of these securities were offered to the public in the beginning. It is true that the then stockholders made enormous profits, which is usually the case in a successful enterprise. Even then such securities are taken by local financial interests, and are rarely found in the hands of the public.

A statement has been made that Swift and Company has 85,000 stockholders scattered from coast to coast. If the real truth of this statement were disclosed it would be found that these securities are owned by listed stock and bond brokers and savings banks throughout the country. In some instances they have been sold to the public. This accounts for the wide distribution.

It is claimed that the Bell Telephone has over 100,000 stockholders. This condition was brought about by increased capitalization, and most of this stock is held by the employees of the company. It is a known fact that the record made by the Ford Motor Company has been used as capital by promoters in every city, town and hamlet of the United States, and the general public led to believe that they had an opportunity to invest in this company when it was in its infancy. The truth is that this offer was never made to the public. They have never had a chance to buy any of Ford Motor Company's stock. It was then and is now a closed corporation, and it is generaly understood that what stock is held by the public is owned by the employees of the company. None of this is the original capitalization.

A statement was issued in the Detroit Free Press in Detroit, in 1915, that at that time there were 450 automobile manufacturers in the United States and only twelve of the 450 had ever paid a dividend. Another statement was made that at that time we had one hundred manufacturers of motor trucks and only four had ever paid a dividend.

These facts are not stated when promoters are financing companies in California, Arkansas, Texas, Florida, Tennessee, Illinois and other states.

The great trouble with the average investor is that he does not think for himself, does not analyze and does not investigate when he is investing his money in stock. This, of course, does not apply to listed stocks and bonds.

Listed stocks and bonds are passed on and recorded by our stock exchanges and have a daily market value the same as our agricultural products of this country, such as wheat, corn, oats, etc. If a farmer wishes to keep posted on the prices of his products, he refers to the daily papers and market reports printed in same.

If you will refer to the stock and bond market of listed securities, you will find the daily quotations of all listed stocks and bonds and their daily cash value.

Very frequently when buying organization stock, the investor will ask, "In case I wish to sell my stock, where will I find a market?" The stock salesman's answer is this: "The best stocks are held privately and are not listed in our stock and bond markets. The reason for this is that they are not for sale. However, Mr. Prospect, should you find it necessary to sell your stock, advise the officers of the company, for there is always on file a waiting list. Many stockholders wish to buy more of the security. The company will act as your exchange when you get ready to sell your stock without cost or charge to you. Thus you are always assured a higher market price."

Stock Salesmen

We have salesmen in various lines of business, but the professional stock salesman is the most clever of all.

When thirty years old the author of this book was considered one of the best specialty salesmen who ever carried a specialty line out of Chicago. He had also sold all kinds of specialties and merchandise products to wholesale and retail trade in large quantities before becoming a stock salesman. Consequently he is able to distinguish between the salesman known as a specialty salesman and the stock salesman.

There are several different classes of stock salesmen. Nearly every proposition that is presented to the public will bring out a new crop, but only a few ever enter the professional class. The professional class are the men who can sell stock in any proposition that can be sold. We have another class who are salesmen who can find prospects, interest them, but known as bird dogs to the profession. They are the salesmen who can find prospects, interest them, but cannot bring about and whip a desire into a resolve to buy. His partner usually is a professional. He has the ability to do the closing. We have another class who can only interest prospects and buyers in small quantities. There is another class that will only present a proposition that can be sold in considerable amounts. One or more professional stock salesmen are to be found in every stock selling proposition, and he is almost always a master at his work.

A professional stock salesman is not a bad fellow. He is usually possessed of a pleasing personality, tact and the ability to put it over. His very approach impresses confidence, and his able presentation of his proposition brings about an immediate desire and resolve to buy. He is a man that can take the personnel of the company and its literature and endorsements and paint a beautiful picture that can be readily seen and believed by the prospective investor, and

walk out with the money, for he certainly is selling blue sky and can make imagination almost become a reality.

Do not think for one minute that the stock salesman has an easy job. It is one of the most nerve racking occupations known among our professions, and requires a man to be physically fit to continue in the business.

It has been observed by the author that three or four days of real hard work per week is all the average stock salesman can stand, because his nerves soon become frayed and shattered and rest is required.

The great percentage of successful professional stock salesmen finally fall victims to the use of stimulants, and some become drunkards who cannot be reformed. When the writer of this book started in the business, headquarters were maintained at the executive offices as a rendezvous for the stock salesmen where they could temporarily relieve their shattered nerves. A promoter once said that he had notified all the salesmen that if they must resort to stimulants, to refrain from doing so when in the field, but they had the liberty to do so when at headquarters where it would not become known to the public.

You would naturally wonder why it is such a nerve wrecking business. The reason is very simple if you know the work of a stock salesman. First of all, he must be a good judge of character and human nature, for there are no two prospects that can be found who are exactly alike or who can be handled in the same way. It usually takes from one to three hours, and sometimes ten hours, actual hard mental labor to extract money from an investor.

The stock salesman is selling something that is imaginary. Consequently, he must take the company's literature and for the benefit of the prospective buyer build a plant, operate it and show a profit. He has no concrete evidence to show.

Can you imagine one farmer selling another a horse by painting a beautiful mental picture of it? Can

you imagine a farmer obligating himself to pay $5,000 or $10,000 without seeing the horse? You would say that the farmer is a fool who would obligate himself for such an amount without seeing and examining the value and title of the horse.

The stock salesman paints a beautiful mental picture every time he makes a sale. The purchaser, as a rule, buys without seeing or knowing what he is doing. The salesman knows when making a sale that the chances of the purchaser ever seeing his money again are few.

The first thing a promoter or fiscal agent does after concluding a contract with a company for the sale of stock, is to locate all the professional salesmen they know and keep constantly on the lookout for others. They continue this until the stock sale is practically closed.

Few of these promoters make advances to stock salesmen. They are usually employed on a strictly commission basis, ranging from ten to twenty-five percent.

The stock salesman, of course, would rather sell a meritorious proposition if it can be sold fast enough or in sufficiently large blocks to enable the salesman to make money.

On the other hand, he is only interested as to whether the stock will sell readily. If, in the judgment of the stock salesman, he can sell it to a profitable advantage, he will take hold of it. When passing on a proposition he first considers the personnel of the company and how far their influence will reach. Also are they enthusiastic or merely luke-warm, and, as we express it, will they "stand hitched." Will they verify any reasonable statement made by a stock salesman?

The next consideration is the prospectus. From this the salesman plans his selling canvass. This prospectus should contain such facts and figures that will confirm his statements.

Next he considers the value of the company's endorsements, as to whether they are written by influential men; how strong the proposition is.

He then finds out from the officers of the company whether they will furnish leads. If so, whether they will furnish letters of introduction to these leads.

If the company can furnish letters of introduction, the salesman takes these letters and calls on the prospective purchaser. If such letters are not available, he follows the lines of least resistance, which depend largely on the nature of the proposition.

If it is a proposition that will appeal to a certain class of business men or professional men they are visited first. If the proposition is of such a nature that it would apply to anyone who has the money to invest, he attempts to interest the bell wether of the community or the man with the most influence.

It is this opening wedge or necleus that the stock salesman must obtain that is his hardest work. If he can interest one or more prominent men in a community his hardest work is done for the rest will follow.

Stock salesmen have gone into a community and have spent from four to ten days interesting and closing men of prominence before doing any general work. The experienced stock salesman knows that it is useless to go into a community and commence promiscuously soliciting subscriptions for stock. If he did this he would soon wear his proposition out and make no sales.

The question is often asked: "Where does a stock salesman get his names?" This is a very simple matter. The experienced stock salesman can go into a town of 2,000 population unannounced and in one day get the name of every man who has money standing in the community, as well as his characteristics. He can do this easily without creating any suspicion.

These names can be secured in several different ways. One way is casually to engage the hotel man of the town in conversation about the town, its different people, etc., and in a very short time the stock salesman has everything that he wants to know. Again the stock salesman may tell the hotel man the nature of his business and that he expects to be a guest at

the hotel for several days and would like to have some information regarding local people who are in a position to invest. As a rule the hotel man is very glad to accommodate his guest in this way, and in an hour or two the salesman has enough names to keep him busy for two weeks.

A stock salesman will then analyze the situation and will probably interview two or three men whose business or profession would enable him to understand the nature of the proposition.

While on the G. S. A. Company of Memphis, the management instructed the author to go to Helena, Arkansas. On arrival in Helena, he found the situation in a muddle. The stock salesman who had been working this territory had promised to share a part of his commission with some of the stockholders who had assisted him in closing sales, but had not kept his promise. Consequently these stockholders were not very friendly. As the author did not care to take the time necessary to patch up grievances, he decided to leave.

The author picked up a map and selected a town of about 1,500 situated in the Delta of Mississippi, about sixty miles from Helena. This was known as a prosperous community.

The author arrived in this town on Saturday, unleashed two beautiful bird dogs, inquired around town who the sportsmen were, and had soon arranged for a hunting party on the following Monday. The next two or three days were spent in hunting.

It was quite natural for the local populace to be curious as to the nature of the author's business. If any attempt was made to find out the author told them that he was then hunting and never talked business while hunting. During these hunts and during the general conversation complete information relative to the men, their financial responsibility and character was obtained.

On the 22nd day of December, the author made his start by first calling on one of the most influential

men of the community, who was at that time cashier of one of the local banks. The weather being very bad, and so near Christmas, the cashier told him that if he would wait until after Christmas and come and hunt with him for one week on his plantation, he would pledge himself to take a substantial block of stock and assist in getting up the proposed quota set by the author for that community.

The author accepted this offer, went to Memphis to spend the holidays and returned to this town punctually on the day set, which was a Monday, closed with the cashier of the bank and left the following Friday night for Memphis with $18,000 of the community's money.

Another illustration—while selling tire stock in Missouri the author dropped into a county seat which had a population of about 3,000. After supper he engaged the proprietor of the hotel in conversation and made the following inquiries: Who is president of the First National Bank? Who is prosecuting attorney? Who are the physicians? Who has the largest practice? Who is county treasurer? Who is probate judge? Who are your hardware merchants? Who runs general stores? In each instance he inquired as to the kind of car they drove.

After obtaining a list of about 35 names, the next step was to find out who the men were with the most influence. The author selected two or three men of prominence, and called on no more until two of them had been closed, which took about three days. The next day about fifteen more stockholders had been added. These latter sales were made easy because the men who had bought were good, shrewd, clever business men.

A professional stock salesman rarely is a stockholder in the company he represents. However, he tells the prospective buyer that he has a substantial block of stock. He has an understanding with the personnel of the company that if an inquiry is made as to how much he holds to answer that he has contracted for a stated amount.

The professional stock salesman also disguises his profession by impressing on the prospective purchaser that he is not solely interested in the sale of stock, but that he has a greater interest in the company. First to make his own investments good, and second he expects to hold some responsible position with the company after it is financed.

The successful stock salesman endeavors to place himself on a level with those he wishes to sell by making himself known in a social way before attempting to do any business or letting his business be known.

He is a man who is usually well educated, resourceful, tactful and can travel in any class and talk on any subject. If he expects to interest a class who drive high-pricel motor cars, wear silk shirts and are club devotees, he will soon worm his way in and become a social visitor at the club.

If he is working farmers, he will put the Packard in the garage, do his driving in a small, inexpensive car, and will probably do away with the boiled shirt. He does this because he does not wish to appear too prosperous in the eyes of the farmer.

We have another class of stock salesman who is known as the lazy, high pressure man. He is also known as a reloader.

For illustration, suppose a company is incorporating for $1,000,000 and has sold about $500,000 to approximately 2,000 stockholders. The company will first get out a general letter to all stockholders, stating that the issue of stock is being closed and the unsold portion has been pro-rated among the present stockholders. They are to be allowed the first privilege to increase their holdings, and reservation blank is enclosed for this purpose.

The company knows that when this letter and blank is sent out that very few if any will be returned, but it has served its purpose by making an opening for the professional reloading stock salesman.

The psychological moment has now arrived and a thorough canvass of the stockholders is made. The

salesman makes it appear to the stockholder that his last opportunity is at hand, and with his high pressure methods accomplishes his purpose—sells the stock.

The professional stock salesman always has the advantage of the prospective purchaser, no matter what the argument may be. There are no reasons or obstacles that cannot be overcome or arranged satisfactorily by the stock salesman.

Argument Generally Used by the Professional Stock Salesman

Usually the stock salesman's presentation is so made that very few questions can be asked after he is through with his canvass. He has answered them in advance.

For illustration, in opening his selling talk, he gives a prospective purchaser a logical reason for calling on him. Here are some of the usual questions and answers that arise:

Mr. Stock Salesman, if your proposition is so good why do you come to me for an investment?

Mr. Prospective Buyer, I have already explained to you our reason for desiring to interest you. Your influence in this community is well known to us, and it is this influence and co-operation that we are seeking, not your money. There are hundreds of people among our clientele who know the value of our security and who would only be too glad to have the opportunity that we are extending to you.

Our plan, as you can see, is a very good one, because we are creating a market for our product while we are financing. Mr. Prospect, if you will only use good reasoning you will understand how valuable our plan of financing will be to the company, and I can assure you that if it were not for the value we place on your influence we would not offer you this opportunity to buy our stock. As far as I am personally concerned, it is immaterial whether you buy or not. I can only present our proposition as it is and you must be the judge.

Mr. Stock Salesman, your proposition sounds mighty good to me, but I am not in a position at this time to handle it. However, I may be able to do so later on.

Mr. Prospect, if you are not in position to buy, someone has certainly misrepresented you to us

because we were given to understand that if our proposition appealed to you, you could buy it. Furthermore, if I should run across a man who admitted that he had ready money to invest, I believe I would throw a fit. I have sold quite a number who have made the same statement but found it to their advantage to arrange a way to make the purchase before I had left them. As far as the money is concerned, Mr. Prospect, we do not want it all now. We could not use it if we had it, so we are only asking as first payment an amount sufficient to cover our present requirements.

Our terms are as follows: one-third cash and the balance in equal payments of two, four, six and eight months, without interest, if you desire. The remainder can be paid in one payment if more convenient to you. Furthermore, Mr. Prospect, if you haven't the ready cash on hand, I would be glad to accommodate you by carrying personally the first payment for thirty days and will charge you no interest.

Mr. Stock Salesman, I do not like to buy anything that I cannot pay for in full.

Mr. Prospect, you may not believe it, but if we were obliged to finance our company by approaching only those who had ready cash to invest, we would never be able to finance it. It is a well known fact that a good business man, and you are not so much different from any other business man, usually keeps his money working and seldom ever has any more cash on hand than is necessary for immediate wants. Most every man I have called on has taken advantage of our terms, inasmuch as they have no interest to pay. You can anticipate what will be available to you in the near future and buy accordingly. You know as well as I do that 90% of the business of this country is done on credit.

Mr. Stock Salesman, how much did Mr. Brown buy?

Mr. Prospect, it would be a breach of confidence if I should tell you, for he would not want you to govern your purchase by his. Furthermore, I am quite

sure that you would not care to have me publish promiscuously your private business—this transaction is your own individual affair.

Mr. Stock Salesman, I have bought stock before, and I have never yet received anything from my investments. This stock included some oil and motor stock that looked just as promising as your proposition. Therefore, I made a resolution that I would never buy any more. You know a burned child dreads the fire.

Mr. Prospect, show me the business, professional man or farmer who has gone through life without experiencing a loss, and I will show you a man who never made a dollar. Furthermore, show me a man who started in with nothing but honesty and a willingness to work, and who did not use his own good judgment and credit, that every made anything.

Mr. Lawyer, I will answer your question by asking you one. Did you ever take a case where you lost your fee? Of course you have, but you did not quit your practice.

Mr. Doctor, did you ever lose a case? Did you ever lose your fee? If you had quit your practice because you lost a case or lost a fee you would not be a doctor today.

Mr. Business Man, did you ever buy a bill of shoes that could not be sold and which you had to sacrifice at a loss? You did not quit buying shoes on this account, did you?

Mr. Farmer, has every year that you have worked this farm proved profitable to you? I know as well as you that if a farmer would quit the farm because he made a loss in any one year we would not have a farmer in the United States today.

So Mr. Prospective Buyer, no matter who you are, if you have suffered a loss and sat down, mourned, cried and worried about it, and made no effort to recoup this loss, it certainly would always remain a loss. Mr. Prospect, no matter in what line of business or

profession one is engaged, where one uses good judgment and is conservative, the law of averages is bound to prevail.

Mr. Prospect, no matter in what occupation you are engaged, be it business, professional man or farmer, the profit and loss is reckoned at the end of the year on the general volume of business and not on individual transactions.

Mr. Prospect, I am quite sure, and I know that you feel as I do, that I am offering you a safe, permanent investment. It is not one that will make you rich over night, but will grow in value and pay you in dividends more than the legal rate of interest.

Mr. Stock Salesman, I know this business and have succeeded in it, but I am not familiar with outside opportunities.

Mr. Prospect, you are capable of reading and understanding, aren't you? You are well aware that there are other opportunities to make more money than the business you are now in. Furthermore, it is such men as you and opportunities of this kind that build our industries, increase the value of real estate, make living conditions better, etc. Consequently, you as a prominent business, professional man or farmer cannot afford to overlook this opportunity.

Mr. Stock Salesman, I know how all these companies turn out; the big fish eat up the little ones. I could only buy a small amount of your stock, and would have nothing to say regarding the management of the company.

Mr. Prospect, this is an erroneous statement, and is certainly an old worn out saying. I have heard it ever since I was a small boy, and nearly every man I call on makes the same remark. Allow me to ask you how many times have you been eaten up by the big fish?

This statement is usually made where a business does not succeed, but the failure of such companies cannot be attributed to the big fish eating up the little ones.

There are a great many elements entering into a proposition that make it profitable. One of the main things is sufficient capital. No matter how good the proposition is if insufficiently financed it will eventually starve to death. There may be other reasons beyond human control that will cause a business to fail, but this cannot be attributed to big fish eating up the little ones. There may be isolated cases where minority stockholders are taken advantage of, but they are few and far between.

Mr. Prospect, if you wish to become financially interested in our company, and are not in position to handle the maximum $5,000, I would suggest that you take what you can handle without embarrassment in case your plans do not mature as anticipated.

One nice feature of this proposition is that you do not have to make a heavy investment to make it amount to something. These figures I am showing you are of companies who started in under less favorable circumstances than we are starting, and if our investment proves to be one-fourth as good as we have every right and reason to believe, you will have made a splendid investment.

In operating your business, you do not put all your money into one particular line.

Mr. Shoeman, you do not buy exclusively from one factory and sell all your shoes at the same price.

Mr. Lawyer you do not confine yourself to one set of law books.

Mr. Farmer, you do not place your entire acreage in corn; you diversify it by putting in some corn, wheat, oats, rye, barley as a safeguard against complete failure.

This should be your guide in buying stocks. Invest in only those companies which, in your judgment, are good and in amounts that in case the investment fails you will not be embarrassed.

Mr. Prospect, look what other companies in similar lines that started in with very small capital, have done. Now I am not promising you that we are going

to make such a record, although our opportunity is much greater now than when these companies started. With the valuable co-operation which we have secured by scattering our stock to the four winds, our success is assured.

Mr Stock Salesman, your proposition sounds all right; I think I will take some. However, I want to talk it over with my wife, and probably with my banker.

Mr. Prospect, if I am to depend on what your wife and banker has to say, I will not return to see you, because I know what their answers will be. First, you cannot make the proper explanation to your wife. You will simply go to her as most men do and say "there was a man here to-day selling stock in a double back action motor truck company. Do you think we had ought to take some?"

Of course you understand, Mr. Prospect, I am not questioning your wife's judgment, but you do not explain the proposition to her as I have explained it to you. Therefore, she is unable to give the matter proper consideration.

As to your banker, I can tell you now that he is not going to advise you to buy this stock. In the first place, he does not know the men at the head of our concern. He does not know the nature of our proposition, or what we are offering. If you are a customer of his bank, and carry money in his bank, he is going to protect the bank's interests by seeing that this deposit remains in the bank. Banks make their money by loaning the money of their depositors.

If you will permit me, I would like to explain my proposition to your wife, so that she will be in a position to analyze and pass on it with the same information that you have.

Mr. Stock Salesman, there will be no use of you talking to my wife. She would not understand it, and would tell you that she will leave this matter to me anyway.

Mr. Prospect now you said that you wanted to think it over. Do you mean that you want a day, a week, a month or a year. Our allotment in this neighborhood is limited, and I must know what you want to do. Now, if you can give me your answer tomorrow morning, say at 10:00, I will be here.

Mr. Stock Salesman, drop around about 10:00.

Mr. Prospect, you can say that I am prompt and punctual; I am here at the appointed time.

Mr. Stock Salesman, I see you are, but I have talked it over with my wife, thought the mater over carefully, and I do not believe that I will take any.

Mr. Prospect, that is not good news. You seemed very much interested in our proposition when I was here yesterday, and I can assure you that it has not changed over night, and I do not think your circumstances have either. I know what you want—if there are any other reasons why you should buy you want me to present them.

Mr. Prospect, you no doubt overlooked the fact that while you may never need a grind stone or truck, in addition to your investment in the company, you will be saving 20 to 25% on your purchase. Furthermore, if you hear of anyone who needs a grind stone or truck, as a stockholder in the company you will naturally suggest the use of articles in which you are financially interested. This word of mouth advertising by you will be very valuable to the company. This is the co-operation we are seeking. In return this is what makes your investment in our company profitable to you. Can't you see it?

Mr. Stock Salesman, yes, I can see it, but I do not see how I can spare the money.

Mr. Prospect, why don't you do like all the others are doing?

Mr. Doe, suposed to be one of the wealthiest men in your community, took advantage of our terms because of the fact that money is money, and interest is interest; and so long as he could take advantage of the

company's terms and still have the use of his money he did so.

As I told you yesterday, if it would be of any convenience to you I personally will carry the first payment, and I can assure you Mr. Prospect, that you will make only one mistake and that is in the amount you buy. You no doubt understand that after the stock begins to pay substantial dividends and increases in value, it will be hard to get.

If you can show me any good logical reason why this company should not succeed, I will leave you now.

Mr. Stock Salesman, I do not know that I can.

Mr. Prospect, I know you cannot. Do you know of a business of a similar nature that has ever failed? If you do I would like to know about it because it would be news to me. For safety and permanency you cannot beat it, and you know it.

Mr. Stock Salesman, what did you say your terms were?

Mr. Prospect, you can pay all cash if you like, or as I explained to you yesterday if it will be of any help to you I will personally carry the first payment thirty days, and you can scatter the remaining payments over a term of six months without interest, just so the money is in the hands of the company within six months.

Mr. Stock Salesman, I will take $1,000 on your terms, that is if you will carry me for the first one-third for thirty days.

Stock salesman proceeds to make out papers, fills out the application blank, draws up the various notes and the average investor never reads the application blank, and merely glances at the amounts of the notes.

The professional stock salesman to clear his own skirts in case the company does not turn out well, takes what is known as "myself note." This is a note that is negotiable anywhere and cannot be identified with any particular purchase. Most banks who understand this note and are willing to buy paper, prefer it be-

cause it loses its identity. This note is signed and endorsed by the purchaser. The professional stock salesman will then sell it at the first opportunity, and turn in the proceeds to the company, with the remaining settlement for the purchase.

The following is a facisimile of a myself note:

$..... City..... State..... Date.....1921

.....after date.....promise to pay to the order of myself.

..... Dollars

at.....with interest at the rate of six percent per annum until paid. Value received.

.....

No..... Due.....

GENERAL FORMS OF CONTRACTS MADE FOR PURCHASE OF STOCKS:

The A. K. T. & R. Company will give a discount of 30% from retail prices to its stockholders on all tires and tubes purchased from said company.

Stock Subscription

No.....

The Company reserves the right to reject all or any portion of this subscription

W. B. COMPANY

Fiscal Agents for the A. K. T. & R. Co.

Authorized capital $3,000,000—par value of shares $100 each—$2,000,000 common—$1,000,000 preferred—fully paid—non-assessable

Stockholders Special Subscription

General Offices Bldg.

I hereby subscribe and agree to take.....

common shares and.....preferred shares of the capital stock of the A. A. T. & R. Company, and agree to pay therefor $100 per share payable as follows: 33 1-3 with this subscription and the remainder in installments as follows:

$.....on.....19...

$.....on.....19...

Stock to be issued only upon completion of payment in full; deferred installments to be mailed to City offices of said Company. No agreement or stipulation other than those printed hereon shall be binding upon the company, and no agent has the authority to waive, or modify this contract, nor to make representations or statements at variance with the printed literature issued by the company. Upon default of the

purchaser, it is agreed that the company shall retain the payments as liquidated damages.

Name .....

Address .....

Street No. .....

Witness. .....

Make all checks payable to the A. K. T. & R. Co.

* * * * *

Selected Subscription

Authorized Capital $500,000 Par value per share $100

A. B. & C. CO.
OF U. S. A.

No. .....B Amount $. .....

I hereby subscribe for .....shares of the capital stock of the A. B. & C. Company, and agree to pay therefor $200.00 per share as follows: Fifty Dollars ($50.00) in cash on each share with this subscription, and the balance, which shall include the full par value or capital portion and the paid-in surplus, ..., 1917.

As soon as said payments have been completed in cash, a certificate therefore is to be issued to me by said company, showing said stock is fully paid and **non-assessable.**

It is understood and agreed that should I fail or refuse to complete the payments provided for in this subscription, the amount paid hereon shall be forfeited to the company as liquidated damages.

This subscription is made subject to increase in price or prior sale, in either of which events the amount paid hereon will be returned by the company.

In case I desire to sell at any time all or any part of my stock, I agree to notify the company of such intention.

Make all drafts, checks or money orders payable to the order of the company.

It is understood and agreed that no conditions or agreements other than printed herein shall be binding on the company.

Dated and signed this.....day of ..... 19....

.....
Subscriber

....
P. O. Address Occupation

RECEIPT

No. 646B Date.....19...

A. B. & C. Company

Amount $.....

Received of .....

..... Dollars, cash, and notes of even date for.....dollars in payment for.....shares of Capital Stock of the above company. In case this subscription is not accepted, the consideration received by the company will be refunded.

This receipt will not be valid or binding on the company if any conditions are added to those printed on the face hereof, or on the face of the subscription.

Countersigned by .....A. B. & C. Company. Agent.....

I wish to call your attention to the paragraph in which it states "it is understood and agreed that no conditions and agreements other than those printed hereon shall be binding on the company." This is to protect the company against any verbal statements that may have been made by the professional stock salesman.

You will notice that on all subscriptions provision is made that all checks or drafts must be made payable

to the company. Where a purchaser does not comply with these requirements, and makes a note or check payable to the stock salesman, the stock salesman can negotiate the same and appropriate the monies for his own use. This would only be a breach of trust.

On page 104 you will note in the subscription of the A. B. & C. Company this paragraph:

"In case I desire to sell at any time, all or any part of my stock, I agree to notify the company of such intentions." There is no meaning to this paragraph excepting to make the purchaser feel that there is always a market for the stock.

On page 104 in the same subscription, you will notice a paragraph which reads as follows: "I hereby subscribe for blank shares of the capital stock of the A. B. & C. Company and agree to pay therefor $200 per share as follows: $50 in cash on each share with this subscription and the balance which shall include the full par value or capital portion and the paid-in surplus. . . . . 1917."

This paragraph is very innocent looking, but when you analyze it it reads as follows: "And agree to pay therefor $200 per share. I understand when I pay $50 on each share with this subscription that this is a portion of the surplus and does not include any of the capital portion of the stock. I have not bought any stock until I have paid the balance which includes the capital portion and the remainder of paid-in-surplus."

On page 104 in the subscription of the A. B. & C. Company there is another paragraph which has been held by supreme courts as invalid. This paragraph reads as follows: "It is understood and agreed that should I fail or refuse to complete the payments provided in this subscription, the amount paid hereon shall be forfeited to the company as liquidated damages."

Very few stock salesmen unless asked, state the par value of the stock they are offering. They usually quote it per share. As you will note in the subscription on page 104, the subscription states at the top that

the par value is $100 per share, but is being sold for $200 per share, thus the purchaser is paying two for one. The average purchaser of stocks is not aware that dividends are only paid on the par value. For illustration we will suppose that this company declares a dividend of 10%. This 10% is paid on $100 par or $10 which is 5% on the amount of $200 paid for the stock.

You will note in the subscription on page 102 that this subscription provides for both preferred and common stock. $2,000,000 common stock, par value $100, $1,000,000 preferred stock, par value $100, fully paid and non-assessable. This subscription does not state whether the common or preferred or both vote, nor does it state what interest the preferred pays. Preferred stock certificates usually provide that the stock draws 7% accumulative, payable annually or semi-annually.

All preferred stock drawing a stipulated rate of interest must bear the word "accumulative," for our laws provide that no stock can pay an interest or dividend that is not earned. For illustration, a company finds that its earnings are not sufficient to pay the stipulated interest on the preferred stock. This can be carried over until the next year, and accumulated with any other interest payments deferred until such time as the company's earnings can pay it all or any part of same. But in all cases the company must have earned it before they can pay it. If the company should declare and pay such an interest earning, and it can be proven that it was not earned, the officers of the company will have laid themselves criminally liable.

Referring again to the subscription on page 102, where the company was issuing both preferred and common stock, our corporation laws provide that all preferred issued comes first as to payment of stipulated interest, and the remainder of the earnings, if any, shall go to the common.

Our Corporation laws further provide that in case of liquidation all preferred stock and unpaid interest

outstanding must be paid in full or its pro-rata share of the assets before the common can participate. Preferred does not participate beyond the stipulated interest provided for in the stock subscription. The common receives and is credited with all earnings over and above the amount of interest provided for in the preferred shares.

Our corporation laws are changing constantly, but in some states it is provided that both the shares of preferred and common shall vote, before a permit will be issued to sell the stock. However, but few companies allow the preferred stockholder to vote unless compelled to do so. The voting powers of the company are usually held by the common stockholders.

When a purchaser gives a stock salesman an application of stock, suppose he pays for it in full by check, or the required amount as part payment by check or note. After the contract is completed the stock salesman beats it to the bank as fast as his legs will carry him and gets the check certified or switched into exchange. If a note, convert it into cashier's check or exchange before anything else is done. This is done to protect the sale, and assure the stock salesman his commission.

A great many times where a sale is made under high pressure, as soon as the purchaser realizes what he has done, wishes to cancel same. He immediately tries to stop payment on his check or prevent his note from being negotiated, but invariably finds that he is just too late. His check or note has already been negotiated.

If the purchase is of considerable amount, and the check is drawn on a bank 100 miles away or the note is only negotiable at a certain place considerable distance, the stock salesman will immediately cover the distance by auto or train, negotiate the check or note to clinch the sale. These conditions have been brought about by the rural telephone for it is so easy for the purchaser to call up his bank on the telephone and

ask for payment to be stopped on his check or request that they do not buy his notes.

The average purchaser does not know the difference between book value, and market value of stocks. The market value of a stock may be determined on the past record of the company, based on the stock book value, and dividends that have been paid; also the future prospects of the company. For illustration, a company may start in with a capital of $100,000, par value $100. This company may continue for three years and during this time pay no dividends, but will have voted its earnings to the account of surplus and undivided profits, amounting to $200. Thus the company will have assets that could be liquidated for $300,000. Therefore, the company has a book value of $300 per share, and a greater earning value because it has $300,000 working against $100,000 when it started.

Another illustration—market values are usually based on a 5% per annum average earning. Where a company starts with a $100,000 capital and earns $25,000 per annum, which is paid out in dividends, and prospects are good for a continuance of such earnings, it may make the market value of this stock $500 per share. For twenty-five percent on one hundred is equal to 5% on five hundred.

* * * * *

In the application printed below, you will note that the par value of the stock is $50 per share. When this application was printed the company was 8 years old and had paid three consecutive dividends of 10%, 12½% and 15½% per annum. In addition to this they had accummulated sufficient assets over and above the amount paid out in dividends to make the book value of this stock $207.00 per share.

In the event this application cannot be filled, the right is reserved to reject the same or make a pro rata allotment, in which event check will be returned.

APPLICATION AND AGREEMENT

To purchase shares in the

N. A. L. INSURANCE COMPANY

I hereby apply for .....shares of N. A. L. I. Co., capital stock with accrued dividends, and agree to pay two hundred and seven dollars per share for same, payment to be made as follows:.....

cash.....in four months from date, and

.....in eight months from date. Certificate for said shares to be delivered by W. P. K. to subscriber when the stock has been fully paid. Par value fifty dollars. Capital $700,000.

This application is not subject to countermand and no conditions, agreements or representations either written or verbal, other than those printed herein shall be binding on W. P. K. and in the event this subscription is accepted and I shall fail to complete this agreement, I hereby assign all of my rights, title and interest of and to the capital stock for which this subscription is made, to W. K. P., trustee, as collateral security for the deferred payments thereon.

Fully paid and non-assessable.

Make all checks payable to W. P. K.

Witness my hand and seal, this .....

day of....., 19....

..... Name .....

Accepted Occupation .....

..... Address .....

Witness

You will note that in all subscription blanks they have the words "fully paid" and "non-assessable." This provision is made to protect the stockholder which means that he is only liable for the amount he

has paid in or the par value of the stock. If this provision was not made, and the company should need more capital they would be privileged under the law to assess each stockholder his pro-rata share of any amount that might be deemed necessary for the company.

After a purchaser has paid in full for his stock there can be no further claim against him for the liabilities of the company. In some states our banking laws provide that all directors of the bank are liable to the extent of the liabilities of the bank.

Advice To Investors

Whether you are a business, professional man or farmer, if you have succeeded you had better confine your efforts to these things. The only outside investments that you should at all be interested in are those that would add to the betterment or welfare of the local community.

The moment you invest in an enterprise with which you are not familiar, and which is controlled by other men that moment your investment becomes hazardous.

If you feel that you must invest, and that you have reached the limits of possibilities in the business in which you are engaged, confine your investments to propositions that you thoroughly understand, know their value, etc.

No matter where you are located, opportunities will present themselves. The trouble with most of us is that we are continually seeking opportunities in unexplored fields. This is why so much money is lost by the investing public.

One of the greatest troubles is that we are not satisfied with what we are doing, and as soon as we begin to accumulate we try to satisfy our aspirations to become strong socially, and to accumulate great wealth.

If you must invest in outside propositions, make sure that you know what you are doing. It would be well for all investors to apply Missouri's slogan "show me."

Do not let friendship influence you when investing your money in stock for sometimes this is used for selfish purposes, and again through innocence. Remember that you are the best guardian of your own money, and you alone are responsible for your investment in safe, sound stocks that are profitable.

So long as you have money you will always have friends; when your money is gone your friends will usually depart.

The general public will favor you, flatter you and support you in your undertaking so long as you are successful. Let adversity overtake you and your position will be reversed.

When investing in any other than a business you know thoroughly and control, do not mortgage the future. If you cannot pay for it in full, you had better pass it up.

Do not give any notes or make any obligations for stock. When you conclude a contract or purchase, be sure that you want it before you sign up. There is practically no recourse after you have signed up. When a proposition is presented study it over carefully and analyze it. Do not invest unless in your own judgment the proposition is feasible and profitable.

If the company is promoting oil or mining leases, be sure that these leases are bona fide and title clear. Also be sure that the values are not inflated, and too much stock given for them by the company.

If it is an enterprise where there has been any free stock given for services or for anything else, you want to know why and the amount and to whom issued. If it is a patent you want to know that it is a basic patent, mechanically perfect and foolproof, and practical for the purpose intended. Furthermore you want to know that these patents are not being put into the company at a fictitious value.

Consider all estimates made as guess work. Estimates in stock selling are first made for the purpose of selling stock. The real figures come after the company has commenced to operate.

Be sure of the personnel of the company; that the management is clean, good and capable of managing the affairs of the company in the best possible manner.

If letters of endorsement are submitted to you, read them over carefully and if possible read between the lines. These letters are usually couched in such terms as will influence the sale of stock, but in reality are meaningless. Be sure you know whether the company is a corporation or a declaration of trust. In-

sist on knowing under what state laws the company is incorporated.

Be sure and find out the amount of capital authorized by the company, whether preferred, common or no par value, or certificate of shares. Find out how much, if any, of the stock has been given for reasons mentioned above and to what extent.

You should also know the classification of the stock offered, whether preferred is classified in first, second or third liens. Likewise the common. You should know what part of the issue has the voting power.

Ascertain the probable cost of production, overhead, etc., and the selling price. Do your own figuring; do not let others figure for you. Do not be in any hurry in buying stocks. Take your own time. Consider the proposition carefully. Do not be induced to sign up hurriedly. A proposition that won't keep over night won't stand investigation. A proposition that won't stand investigation and consideration is like perishable fruit—won't keep.

Do not be influenced by the statement that there is to be an immediate advance. When stock advances there should be good, sound, logical reasons for it.

Some stocks are advanced fictitiously with no reasonable basis warranting such an advance. These advances are sometimes made for the purpose of selling stock.

Sometimes it is insinuated that advances in the prices are to be made immediately which never occur. When you buy stock be sure and read the contract carefully. Be sure that you understand same. If you do not understand, do not sign it. Do not take the other fellow's word for anything.

When making your purchase be sure that you comply with all the terms of the contract, sign no notes or checks that are not made payable to the company, and on local banks. Be sure and avoid a "myself note," for the minute it is given it loses its identity, and is negotiable anywhere.

Do not be deceived into believing that you are necessary to a company that is a clean cut proposition. Do not be deceived into believing that you are being favored merely for influence and co-operation. A good proposition properly financed and properly managed does not have to capitalize co-operation. With money they can buy it, or rather create a market for their product. Do not be flattered or vain enough to believe that you are being especially favored. This is only practiced to obtain your subscription.

In some communities an investor will fall for a proposition, and he feels it a part of his duty to see that others are interested so that in case of failure he will not be the only sucker. Very rarely is there anything to give away—good things have a value.

Unless you can buy enough to warrant you to attend all meetings of the stockholders, you had better stay out. Do not send your proxy; go in person. Then you will know how your stock is being voted.

It is customary in sending out notice of an annual stockholders meeting, if the stockholder cannot be present, to mail in a proxy, giving one of the officers authority to vote the stock. In this way a few officers can control the meeting and carry out any plans they may have in mind, whether to the benefit of the company or not. Of course, it is understood there must be enough stock voting to constitute a quorum or it would not be legal.

Insist on having a financial statement. A company can furnish one whether it be one day, one month, one year or 100 years old. If possible, be sure that the financial statement has been made by certified auditors. In any event be sure that it is made by the proper officers and acknowledged before a notary public.

If you do not understand a financial statement when it is submitted to you, take it to your banker, and let him analyze it for you. Under no circumstances should you invest unless a financial statement is rendered under the conditions above stated.

A plain financial statement sometimes is of no value in passing on a proposition. A statement that will give you the information you should have is an itemized one covering the assets of the company, what they are and the appraised value, operating costs, overhead, selling costs, gross income, etc.

Deferred assets, as a rule, is the term used to cover a deficit such as cost of organization. All these things must be taken into consideration when investing. Remember there are a great many elements of risk entering into a public investing proposition before a dividend can be paid. Some of them are over capitalization, inflated values, insufficient capital, poor management, etc. Investing is not boy's play and requires good sound logical conservative judgment.

If you had to have a tooth pulled, you would not go to a blacksmith. If you wanted insurance you would not go to an undertaker. If you needed a physician you would not go to a cobbler. If you required a blacksmith you would not consult a sign painter. A great many times the management of a company is invested in men who are as much out of place as a pig in a church.

Remember that in all states an organizing company must have both a permit and license before they are privileged to sell stock. Remember that the officers of the company or the salesmen who offer you stock without submitting a license are criminally liable. Do not forget that this license is not an endorsement of the solidity, safety or value of the investment. It is simply a privilege to sell it.

Do not forget that this license contains the following paragraph "this department does not recommend the purchase of this security." You must be your own judge. Keep in mind that there is no market for organizing securities; the market is being created as it is being sold, and the price is usually arbitrarily set.

Remember that your investment in an organizing company shrinks immediately after you have signed

the subscription, because the cost of organization must be deducted, unless the company is an operating one and operating at a profit. Keep in mind that the professional stock salesman has the better of the argument. He knows his proposition—you do not.

Dividends, if any, are paid on the par value of the common and preferred stock on so much per share on no par value stock, not on the price you pay for it. A script dividend is not a dividend until it has been paid. A script dividend is simply evidence that a dividend has been declared. While it becomes a liability against the company, at the same time payment may be carried on indefinitely.

When you buy a piece of real estate, you do not part with your money until you have secured an abstract of title, had same examined and found that it is clear. This same rule should be observed when buying stock.

If you are the owner of stock do not give a promoter or stock salesman a power of attorney to sell same unless you want to sell.

Remember the stock salesman tells you only the things that he knows will interest you, while the others you should know he carefully omits.

Probably you have made a good resolution never to buy any more stock. As a rule good resolutions are made to be broken, and pretty soon you will find this resolve slipping. Then if you do not look out you will be taken in.

Do not flatter yourself into believing that you are too wise or that you know it all—you can always learn something. So long as it is generally known that you have prospered or are prospering, you will be solicited to buy stock.

You buy fire insurance to protect your buildings. You buy life insurance to protect your family. You buy the services of a physician when you are sick. You

buy the services of a lawyer when you need legal advice. If there is any doubt in your mind as to the safety or future prospects of an organizing company, do not fail to take advantage of your opportunity as a subscriber to get a report from the National Investors Service Bureau, the only service of its kind in the world.

Forms Showing Negotiable Instruments, Privileges and Legal Points, with Reference to Purchase and Sale of Stock

The words most frequently employed to indicate the negotiability of an instrument are the words "to order," "or bearer," but any words from which it can be inferred that the maker intended the instrument to be negotiable will have that effect.

The essential elements of a negotiable instrument are as follows:

1. It must be in writing, and signed by the maker or drawer.

2. It must contain an unconditional promise or order to pay a certain sum in money.

3. It must be payable on demand or at a fixed or determined future time.

4. It must be payable to order or to bearer.

5. Where the instrument is addressed to a drawee, he must be named or otherwise indicated with reasonable certainty.

6. The parties to a negotiable instrument must be competent to enter into a contract.

7. A negotiable instrument must be founded on a valid consideration.

8. Actual delivery must be made to give effect to the instrument.

An Endorser or Endorsers

Endorsers on a negotiable instrument are liable in the order in which they endorse. Each endorser promises every subsequent holder of the bill or note that they shall suffer no loss by reason of the default of the principal debtor.

Rights of the Holder in General

The holder of a negotiable instrument may recover the amount payable thereon in his own name, and pay-

ment to him in due course discharges the instrument. In any discussion of negotiable instrument, the phrase "a holder in due course" is frequently employed. Let us inquire, therefore, who is a holder in due course.

A holder in due course is one who obtains possession of an instrument under the following conditions:

1. That it is complete and regular upon its face;

2. That he became the holder of it before it was overdue, and without notice that it had been previously dishonored;

3. That he took it in good faith and for value; and

4. That at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

It will also be noted that where an instrument payable on demand is negotiated an unreasonable length of time after its issue the holder is not deemed a holder in due course.

The title of a negotiable instrument is defective within the meaning of the law if the person who negotiates it obtained the instrument or any signature thereto by fraud, duress or force, or other unlawful means, or for any illegal consideration, or when he negotiates it in breach of faith or under such circumstances as amount to a fraud.

A holder in due course of a negotiable instrument holds the same free from any defect of title in prior parties and free from such defenses as are available, to prior parties among themselves. Such a holder in due course may enforce payment of the instrument for the full amount thereof against any and all parties liable thereon.

The law further specifies that a negotiable instrument in the hands of any holder other than one not in due course is subject to the same defenses as a non-negotiable instrument. The law presumes that every holder of a negotiable instrument is a holder in due course.

Promissory Note

$..... Detroit, Mich, July, 1, 192..

.....after date, for value received, I promise to pay to the order of.....

..... Dollars, at ....., with interest at .....% per annum.

.....

Judgment Note

$..... Detroit, Mich., July 1, 192..

.....after date, for value received, I (we) promise to pay to the order of.....

.... Dollars, at ....., with interest at .....% per annum. And I (we) jointly and severally, hereby authorize, irrevocably, any attorney of any court of record, if this note is not paid at maturity, to appear for me (us) in such court, in term or vacation, at any time hereafter, and confess a judgment, without process, in favor of the holder of this note, for such amount as may appear to be unpaid thereon, together with costs and reasonable attorney's fees, and to waive and release all errors which may intervene in any such proceedings, and consent to immediate execution upon such judgment, hereby ratifying and confirming all that my (our) said attorney may do by virture hereof.

Witness: .....(L.S.)

.....

Collateral Note

$..... Detroit, Mich., July 1, 192..

.....after date, for value received, I promise to pay to the order of.....

..... Dollars,

at ....., with interest at .....% per annum, and as collateral security for the payment of said principal and interest transferred, pledged and delivered to said payee..... and hereby irrevocably authorize said payee or the legal holder hereof to sell the same at public or private sale and apply the proceeds thereof, after deducting all costs, attorneys' fees and expenses, toward such payment, with the right to said payee or holder to purchase at such public sale, any overplus to be delivered to me and any deficiency to be paid by me forthwith upon demand.

.....

Power of Attorney

Power of attorney is the legal relation existing where one person represents another in business dealings with third persons. Should be acknowledged and recorded whenever required for instrument agent is to execute.

Know all men by these presents that I, ...

..... of....., have made, constituted, and appointed, and by these presents do make, constitute, and appoint.....

of.....my true and lawful attorney for me and in my name, place, and stead to (set out fully what is to be done by the attorney); giving and granting unto my said attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully to all intents and purposes, as I might or could do if personally present, with full power of substitution and revocation,

hereby ratifying and confirming all that my said attorney or his substitute shall lawfully do or cause to be done by virture hereof.

In witness whereof, I have hereunto set my hand and seal this tenth day of December in the year one thousand nine hundred and twenty-one.

. . . . . (L.S.)

Executed and delivered in
the presence of

. . . . . .

A proxy is a special power of attorney. It is limited strictly to the powers specified. Is terminated by death of maker, sale of stock for which given, or formal revocation filed with the secretary of the corporation. Maker's presence and participation at meeting, is inconsistent with terms of the proxy, will revoke it. It is revocable, though made "irrevocably," unless coupled with an interest as where given with pledge of stock. If given for a certain meeting, it is good for any adjournment thereof, whether so stated or not. Name of proxy may be left blank, to be inserted after signature; when inserted, or can be used by person named, unless power of substitution is conferred.

Directors cannot give proxies for directors' meetings, as their office is one of trust and cannot be delegated.

Proxies used are filed with the secretary, or original is exhibited and certified or sworn copy filed.

Need not be witnessed or acknowledged unless required by statute, charter or by-law, which may also limit time for which valid.

Proxy

I hereby appoint ..... my proxy, with full authority to vote for me and in my place at any and all stockholders' meetings of the .....

Witness my hand and seal this fourth day of November, 192..

..... (L.S.)

Witness:

.....

Revocation of Proxy or Power of Attorney

Know All Men by These Presents:

That I, the undersigned, do hereby revoke and annul any and all proxies (or powers of attorney) hereinbefore given by me, authorizing or empowering any person or persons to represent me, or vote in my name and stead or act for me in any way whatsoever at any meeting or meetings of the stockholders of the..... .....

Witness my signature and seal this..... day of.....192..

..... (L.S.)

Witness:

.....

Option

Date.....

In consideration of....., the receipt whereof is hereby acknowledged, the undersigned hereby agrees to sell and deliver to....., his assigns or nominees, ...shares of the common capital stock of....., an.....corporation, at $..... per share, at any time within.....days from date, upon.....days' prior written notice of intention to exercise this option. All dividends payable after payment for said stock shall go with the stock.

In testimony whereof, the said grantor has hereunder subscribed his name and affixed his seal, the day and year first above written.

.....(L.S.)

Witness:

.....

Subscriptions Obtained by Fraud

The representation to constitute fraud must in point of fact be false, and it must be a statement of fact as distinguished from an expression of opinion or judgment. The false statement of a material fact must, to be fraudulent, have been made with the intention of deceiving.

There are five elements necessary to render a statement fraudulent in the eyes of the law. It must be (1) a false statement, (2) of a material fact, (3) made with a knowledge of its falsity or with a reckless disregard of its truth; (4) it must be acted upon by the party to whom it is made, (5) who must suffer loss thereby.

It is a well established rule of law that if a person is induced to enter into a contract by false representations or fraudulent statements made by the other contracting party or his agent, the contract may be avoided, at the option of the innocent party. This principle applies with full force to contracts of membership in a corporation; and consequently, if a subscription for shares has been obtained through fraudulent representations the subscriber may repudiate his subscription and withdraw as a member of the corporation. A false statement regarding the contents of the charter would not, however, entitle a subscriber deceived thereby to avoid payment of his subscription, because a man in subscribing to shares undertakes to become a member of a particular corporation, and as his contract of membership is contained in the company's charter (which is of public record) he is bound at his own peril to inform himself of its contents. Further more, such false statements as will give a subscriber the right to repudiate his subscription must not relate to a matter of public law, must not be an expression of opinion, but a positive statement of fact, which must have been made by an agent authorized to speak on behalf of the corporation; they must have constituted a material inducement to the subscription and the party deceived by such false statements must act promptly in annulling his subscription, otherwise his privilege is lost.

Right to Examine the Company's Books

It is apparent that if every shareholder of a large corporation was given the right to examine its books at pleasure it would be impossible to keep them in a proper manner. Consequently the law in some states holds that the books of a corporation may only be examined at a meeting duly convened by agents appointed by a majority of the shareholders. The better authority is to the effect that "unless the charter provides otherwise, a shareholder in a trading corporation has the right to inspect its books and papers, for a definite and proper purpose, at reasonable times."

Liability of Stockholders

Whether one is an original subscriber of stock or becomes such after a corporation has been formed, he is liable to contribute to the corporation the full amount of the shares he subscribed.

It sometimes occurs that the promoters of a corporation having difficulty in raising sufficient capital to properly conduct business, offer to sell stock at a percentage of its face value, say thirty-three and one-third per cent. That is, a purchaser would receive $30,000.00 worth of stock upon payment of $10,000.00. Such a purchaser is entitled to receive dividends upon his stock the same as if he paid the full value. Consequently it would appear upon the books of the company that the full amount had been paid, and the treasury of the company would appear to be in better shape than it actually was.

Assume, that under these circumstances a party, upon examination of the corporation's books, is induced to loan it a large sum of money. It subsequently develops that the purchaser upon the terms mentioned above has never paid in the full value of his stock. The principle of law governing such a case is as follows: Every subscriber to stock of a corporation guarantees the amount of the face value of the stock standing in his name shall be used in payment of the liabilities of the corporation. He cannot escape his liability to pay the full amount of his subscriptions into the treasury of the company for the benefit of its creditors by any agreement with the corporation. In other words, the contract would be valid as originally made, provided the rights of creditors did not intervene.

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